

NEWS SUMMARY

GENERAL

Students move Iran hostages

Students holding the 50 American hostages in Iran have moved some of their captives to new secret locations.

The move follows President Carter's statement that the U.S. is exploring new avenues of negotiation with Iran over the hostages.

Expulsion order

Two British journalists were given 48 hours to leave Iran after being detained overnight.

Ayatollah hurt

Iran's roving Islamic judge, Ayatollah Khomeini, who has ordered more than 150 executions since May, was injured in a car accident.

Shah's battle

The deposed Shah of Iran was said to be "holding his ground" as he battled against serious illness in a Cairo hospital.

Arms race move

Talks on halting the nuclear arms race will be a key topic in meetings starting today in West Germany between President Giscard d'Estaing and Chancellor Helmut Schmidt.

Zimbabwe call

South Africa is likely to take a tough line against Zimbabwe Premier Robert Mugabe's demand for the cutting of diplomatic ties with the reclusive of other links.

Prisoners caught

Police recaptured three prisoners who escaped from Glasgow's Barlinnie jail two weeks ago.

Observer talks

Last-ditch talks which could decide the future of the Observer newspaper resume in London tomorrow.

Pakistan protest

Pakistani President Zia-ul-Haq promised tax law changes after 25,000 Shia Muslim demonstrators besieged Government offices in Islamabad. Earlier story, Page 2.

Pope's praise

The Pope praised Brazil's racial harmony in a speech to 400,000 people in Curitiba city.

Liner blaze fears

Dense black smoke from the Italian luxury liner Leonardo da Vinci, ablaze for three days in La Spezia bay, raised fears that the fire may have reached 1,200 tonnes of fuel oil aboard.

Curfew lifted

Turkish military authorities temporarily lifted a curfew in Corum, north-east of Ankara, where 19 people have died in sectarian riots. Page 2.

Borg injury

Bjorn Borg, who won his fifth Wimbledon title on Saturday, will not play for Sweden in the Davis Cup match with Italy next week because of a stomach muscle injury. John Barrett, Page 11.

Meeting of minds

About 4,000 psychologists from 50 countries are meeting in Leipzig for a six-day congress.

Briefly...

Three children died in a house fire at Hull.

Hundreds of London Underground passengers were stranded for an hour because of a power failure.

Three people died in a blaze at a Paris sauna.

BUSINESS

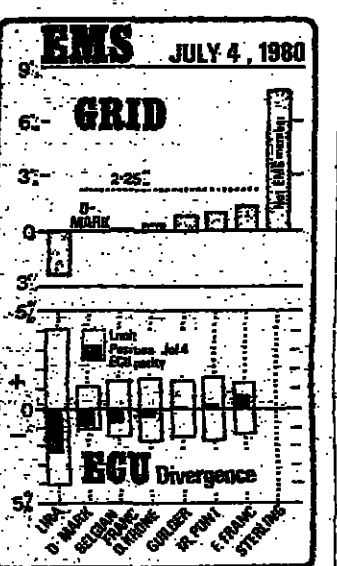
Treasury optimistic over inflation

INFLATIONARY pressures will be shown to be easing in the Government evidence over the next fortnight. But the Treasury opinion survey shows a very low level of confidence among industrialists for their companies and for the economy generally. Back Page, Page 6.

CURRENCIES showed little change within the European Monetary System last week. The French franc remained the strongest member, with the Italian lira adrift from the others at the bottom.

The Irish punt and the Dutch guilder were also firm, followed by the Danish krona and the Belgian franc. The D-mark was the weakest within normal divergence limits, while the lira which is allowed a much wider degree of movement, was anchored well below its partners.

This is reflected in the chart, which takes the Deutsche Mark as the base currency. The Italian authorities introduced the expected economic package last week; this did not include a devaluation of the lira.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the lowest currency in the system, defines the cross rates from which no currency (except the lire) may move more than 2.5 per cent. The lower chart gives each currency's divergence from its 'central rate' against the European Currency Unit (ECU), itself a basket of European currencies.

INTEREST rates are likely to fall quite rapidly later this year, Midland Bank economists forecast. Page 4.

UK CHEMICALS industry output was down sharply in March and April according to provisional figures. Page 3.

BUILDING SOCIETIES' Association chairman Leonard Williams strongly supports council house sales. Page 3.

REGISTRAR of Companies' present services have been defended by the British Institute of Management, which has protested against Government plans to reduce them. Page 3.

COAL BOARD is to consider substantial investment in research and development of mining methods without miners. Back Page.

FRENCH ECONOMY review published by OECD suggests likely to be substantially greater than forecast by the French authorities. Back Page.

BUENOS AIRES underground transport extension project, worth \$2.5bn (£1.07bn), will be put out to tender before the end of the year.

FIAT has announced a scheme offering loans at 5 per cent on all new Fiat cars and light vans.

F. H. LLOYD, the engineering group, reported sales for the year ended March 29, 1980 up to £84.1m (£83.5m), but pre-tax profits were down at £2.37m, against £3.42m after higher interest charges and severance payments. Page 14.

Fifty Tories seek tougher line on Employment Bill

BY PHILIP RAWSTORNE

FIFTY TORY MPs yesterday stepped up the campaign to toughen the Government's Employment Bill provisions to limit secondary industrial action.

In a telegram to Lord Hailsham, Lord Chancellor, they urged that the Commons should be given a chance to reconsider the issues of secondary picketing and blacking.

Led by Mr. George Gardiner, MP for Reigate, the Conservative backbenchers pressed Lord Hailsham to allow an amendment in the Lords tomorrow by Lord Orr-Ewing, a Tory peer.

The amendment would outlaw all secondary action but, according to the Tory rebels, it would not prejudice the Government's position until the Commons debated the issue again.

The MPs called on Lord Hailsham, who is expected to lead the Government's counter-attack in the Lords tomorrow, to heed top legal opinion that the Bill's present provisions would "ensure that secondary action of the most vicious nature is rendered lawful".

Strong support for tougher

Government action came yesterday from Mr. Walter Goldsmith, director-general of the Institute of Directors.

Mr. Goldsmith, expected to reinforce his attack on the Bill's provisions today, said they were "incapable of restraining all the unacceptable excesses of trade union power".

Clause 17 of the Bill, which deals with trade union immunities, was a "badly framed legal nightmare" which had aroused unprecedented dissatisfaction from businessmen, lawyers and politicians, he said.

It would be "a fatal blunder" if the Government refused to change it.

Mr. James Prior, Employment Secretary, has been assured of the Cabinet's continued backing for his cautious approach, though Mrs. Thatcher has said the Bill marks only a "first step".

Senior Ministers showed no sign at the weekend of altering plans to produce a Green Paper on union immunities in the autumn before considering whether further legislation is needed.

Mr. Prior replied to his critics yesterday, dismissing their charges as "ill-founded".

In a letter to Mr. Gardiner, he said a total ban on secondary action would conflict with the strong tradition of sympathetic action in disputes and would raise a danger of a concerted campaign that would make the Bill unworkable.

"Nothing is more likely to bring the law into disrepute than for it to be flagrantly disobeyed," Mr. Prior said.

Mr. Anthony Frodsham, director-general of the Engineering Employers' Federation, called for the Bill to be passed without delay.

More radical changes now would make it a less effective measure for countering the abuses which it aimed to cure, Mr. Frodsham said.

Stronger measures would also "leave a greater measure of bitterness than the present industrial relations system can well accommodate," he said.

Tory Reform Group Conference —Page 4

Franco-Spanish relations deteriorate over EEC

BY JOHN WYLES IN MADRID

FRANCO-SPANISH relations appear to be deteriorating sharply over Paris's increasingly obvious intention to slow down Spain's negotiations to join the EEC until the Community has agreed on domestic budgetary reform.

After a visit to Madrid last Wednesday and Thursday by M. Raymond Barre, the French Prime Minister, Spanish officials believe that France is ready to frustrate their hopes of joining the EEC by January 1, 1983.

This has forced the sharpest public complaint yet by the Spanish Government over French tactics. In an interview with the Financial Times, Sr. Leopoldo Calvo Sotelo, Spain's Minister responsible for the EEC, said France was seeking to put an "unjustifiable precondition" on Spanish membership.

During his discussions in Madrid, M. Barre made it clear that France was opposed to completing the accession negotiations covering Spain and Portugal until the Community's own internal discussions on domestic reforms had been completed.

This was first hinted in a speech last month by M. Valery Giscard d'Estaing, France's President. Although it is not the

official Community position, it may well have some support among other members. A leading member like France is in a strong position to influence the negotiation timetable.

The EEC will start tackling its budget problems in the second half of next year on the basis of a report to be produced by the end of next June by the European Commission. The aim will be to remove imbalances which mean that West Germany, which bears the heaviest burden, the UK, in spite of its recent budget deal, and France are the only member States paying substantially more into Brussels Budget than they receive.

Since reform will also involve tackling the enormous costs of the Common Agricultural Policy, it is quite likely that the 10 (Greece becomes a member next January) will be unable to resolve the problem quickly. If this delayed completion of the negotiations with Spain and Portugal well into 1983, then their membership would almost certainly be delayed until 1984.

Sr. Calvo Sotelo said that Spain had always understood there could be no possibility of EEC membership during the Franco dictatorship. But the

EEC's essential precondition for membership of a democratic political system had been established, and it was quite wrong for another precondition to be raised.

All of Spain's main political parties were in favour of membership. But the Minister warned that frustration was rising as it was three years since Spain had decided to join the Community, and nearly 18 months since negotiations started.

But these are still in their preliminary stages. "There has to be a rhythm to the negotiations which demonstrates a political will," said Sr. Calvo Sotelo.

If this is missing, then "this could change the current unanimity of all the main parties in favour of membership."

M. Barre had been told that Spain wanted its negotiations to be conducted in parallel with the Community's own domestic discussions, and that it wanted to be consulted on the internal changes under consideration. M. Barre offered to keep Spain informed of negotiations among the 10, but repeated that these had to be concluded before the Spanish negotiations could be finalised.

Editorial Comment, Page 12

Gold mine decision expected

BY BERNARD SIMON IN JOHANNESBURG

DETAILS OF a large, new Southern African gold and uranium mine controlled by Anglo American and Lonrho will probably be announced later this week.

Trading in the shares of the Welkom, Western Holdings and Free State Saaiplaas gold mines (all controlled by Anglo American) and of a Lonrho subsidiary, Duker Exploration, was suspended by the Johannesburg, London and Salisbury stock exchanges on Saturday pending the outcome of negotiations on the establishment of the mine.

The discussions centre on the so-called Erfdeel-Dankbaai block, an area in the Orange Free State goldfields. It adjoins the Welkom mine to the west, Free State Saaiplaas to the south, and Western Holdings to the north-west. Anglo American own 60 per cent of the mining rights to the block, and Duker 40 per cent.

Anglo American has made no secret of its prospecting activities in the area. Mining analysts

in Johannesburg and London have for some time been expecting an announcement on the exploitation of the deposits.

The gold content of the deposit is believed to be relatively low grade, about six grammes per ton is mentioned in mining circles. The sharp rise in the gold price in the past year appears to have made a mine commercially viable. The grade is believed to be considerably higher than at a nearby Beatrix mine, the construction of which was given the green light last month.

Mining analysts say a key element in the negotiations has been the extent to which a future Erfdeel mine will share the facilities of Western Holdings, Free State Saaiplaas and Welkom.

The developers are said to be hoping that the South African tax authorities will allow capital expenditure on Erfdeel to benefit the tax structure of these three mines. One possibility is that Erfdeel's

development will be structured in such a way as to create one "super-mine" out of the four sites now treated as separate entities.

The cost of a new mine is estimated at roughly R500m (£275.7m). But the sharing of facilities and proposed tax benefits could bring its effective cost down to R200m (£110.3m).

The suspension of the shares of companies involved in the Erfdeel venture is less than a week after the Johannesburg stock exchange set strict new guidelines aimed at making it difficult for companies to suspend trading in their stock.

Mr. Richard Lurie, president of the Stock Exchange yesterday said the rules provide for suspension in exceptional circumstances.

"The companies are concerned that there could be leakages of information, and we did accept that these are exceptional circumstances," he said.

Gold suppliers will be in demand —Page 12

Flexible cash limits studied

BY ANATOLE KALETSKY

A MORE flexible system of cash limits for nationalised industries is likely to be recommended by a top-level group of Government officials and a nationalised industry board members who have been considering since May reforms in the nationalised industries' financial arrangements.

Proposals for technical changes in the present arrangements for borrowing from the National Loans Fund by State corpora-

tions to give the industries more freedom to vary their borrowing maturities, are also being viewed sympathetically by the Treasury. It is expected that recommendations will be submitted to Ministers before the parliamentary recess next month.

The group was set up at the Chancellor's behest in response to growing tension between the Government and the nationalised industries over the way that

cash limits and other financial constraints have interfered with the industries' commercial operations, inhibited investment and cut across the medium-term financial targets which are in theory the industries' main objectives.

It is chaired by Mr. Bill Rye, Second Permanent Secretary at the Treasury, and includes representatives of major spend- Editorial Comment, Page 12

Continued on Back Page

Walker questions economic strategy

BY ELINOR GOODMAN

MR. PETER WALKER, the Agriculture Minister, has for the first time expressed doubts about the Government's economic strategy. Speaking on Saturday to an audience of fellow Conservative doubters at the Tory Reform Group conference in Warwick, Mr. Walker questioned some of the fundamental assumptions behind the Government's economic policy.

He made it clear he was worried about the social implications of trying to squeeze inflation out of the system, at the expense of jobs, and implied that in his view the Government was badly underestimating the drain on the Exchequer caused by unemployment. He also indicated that he favoured much more interventionist approach to industry than is favoured by the Government.

Little of this was stated in so many words. Instead, he used the conventions of the Conservative Party to make his point. Like Sir Ian Gilmour, the Lord Privy Seal who was the first Cabinet Minister publicly to admit his doubts about the Government's economic strategy, Mr. Walker presented his remarks as a reaffirmation of his belief in the basic principles of the Conservative Party rather than as a challenge to the Government.

Throughout, he was careful not to mention any of his colleagues by name and he claimed that there was evidence that the Government had recognised the need to "balance efficiency with compassion."

Mr. Walker, a close associate of Mr. Heath in the last Conservative Government, has been known to be uneasy about some aspects of the Government's policies but until now he has not made his doubts public. His speech on Saturday was not a major set piece like Sir Ian's but in it he summed up in public many of the doubts which Ministers on the liberal wing of the Cabinet are expressing in private.

He argued strongly against the belief that a rise in unemployment would produce a slower rate of wage increases. There was plenty of evidence, he said, to suggest that a company short of money gave in to wage demands to avoid an expensive strike.

Mr. Walker also argued that it was wrong to assume workers would be more willing to co-operate if their jobs were at risk. Most union restrictive practices dated back to the 1930s when unemployment was at its highest. The first reaction

Continued on Back Page

Coal industry has flood of job applicants

BY RAY DAFTER, ENERGY EDITOR

THE COAL industry, now engaged in a major modernisation and expansion programme, is having to turn away hundreds of people wanting jobs in collieries.

In some regions hardest hit by industrial recession—the Midlands and the North in particular—there is fierce competition among applicants.

The National Coal Board said last night: "We do find that people are turning towards the coal industry because of its security and its high earnings, which are helped by productivity bonuses."

Nationwide, the board's employment position was "just about in balance." But the industry was constantly recruiting.

With a workforce of about 230,000, the board had to recruit about 25,000 annually to replace employees who resigned or retired.

There have been more than 2,000 applicants for 400 jobs in about 20 pits in Staffordshire, Cumbria, Lancashire and North Wales. In the Midlands, there is a waiting list of 1,500 for

jobs at 52 collieries.

In many areas, the board is one of the few employers taking on workers. In some instances, applicants have been overqualified for jobs on offer.

Generally, the industry is facing a flood of applicants from school-leavers. Pits in South Wales have more than four applicants for every mining and craft apprenticeship, in spite of the local mining uncertainties. The Coal Board is not recruiting adult workers in South Wales because of pit closures, but it expects to take 700 apprentices this year.

In the Midlands, the board said that it was receiving four or five applications for available apprenticeships. The Midlands waiting list is more striking among mature workers: there are 20 to 30 applications for each job.

"We have had waiting lists before, but I don't think in recent times they have ever been so long," said the Midlands spokesman.

"We are hoping that the increases in wages that have

Continued on Back Page

Miners' union to decide on pit closure stance

BY CHRISTIAN TYLER, LABOUR EDITOR

MINERS' REPRESENTATIVES will be deciding this week how far they are prepared to go in fighting off more pit closures.

Despite brighter international prospects for coal, the National Union of Mineworkers suspects that dozens of loss-making collieries are in greater danger of closure now than for years.

The union cites the phasing out of operating grants to the National Coal Board and more generous redundancy payments as evidence of Government intention to reduce overall manpower.

Militants at the union's annual conference in Eastbourne will be looking for a clear mandate to fight closures with industrial action and insist on full settlement of the next pay claim in spite of the Government public sector wage policy.

A demand for £100 a week basic wage from January 1 for the lowest paid mineworker—an increase of nearly 36 per cent—is almost certain to be carried unopposed along with the stipulation that miners should be treated as salaried workers.

If successful, this demand to oppose the Government, backed by industrial action if necessary, would not only test the TUC's temperature but would also give new impetus to the Left within the NUM. The Left is already rallying behind Mr. Arthur Scargill's campaign for the national presidency in succession to the moderate Mr. Joe Gormley.

Miners' fears, Page 5

From July 1st, over £2,500 million has a new home in the City

At half-past-nine on July 1st, NatWest opened its Corporate Trustee Office at Drapers Gardens, in the heart of the City.

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OVERSEAS NEWS

S. Africa 'hard line' on Zimbabwe

BY OUR SALISBURY CORRESPONDENT

ZIMBABWE Government officials are predicting a hard-line response from South Africa to the demand by Mr. Robert Mugabe, the Prime Minister, that diplomatic links between the two countries be severed, but economic, financial, tourist and transport links be retained.

Officials here said Pretoria was "not inclined" to bow to Mr. Mugabe's demands and was adopting "an all-or-nothing approach."

At his Salisbury news conference after his return from the Organisation of African Unity summit in Freetown, Sierra Leone, Mr. Mugabe said he had told Mr. Piet van Vuren, South Africa's diplomatic representative, to pack his bags "nine days ago."

He had, however, not given any deadline for the mission's closure. "We told him that we were not pushing him out overnight."

The South African diplomatic mission in Salisbury had been used to recruit men of all races for the South African forces to infiltrate into Angola, Mozambique, Zambia and Zimbabwe, Mr. Mugabe claimed. These "recruitment operations" had



Mr. Mugabe...
"Told them to pack their bags."

been "infiltrated" by Zimbabwean agents. He expected, however, that South Africa would want to retain trade and economic links.

No official comment was forth-

coming in Pretoria, but South African officials in Salisbury implied that Mr. P. W. Botha's Government might adopt a tough attitude, and insist on closing its economic as well as its diplomatic offices in Zimbabwe.

South Africans in Salisbury make the point that Zimbabwe is more dependent on South Africa—it is estimated that at least 90 per cent of Zimbabwe's exports and imports use the South African railways and ports.

Businessmen in Salisbury, however, are predicting that South Africa will retain economic representation in Salisbury, and seek to retain an office for the issue of passports and residence permits for whites wishing to emigrate from Zimbabwe. Thousands of whites in Zimbabwe have South African nationality, and hundreds are seeking work permits for South Africa.

The ruling ZANU PF party claimed at the weekend that literally thousands of blacks—mainly in private domestic service and agriculture—have been laid off because of the new minimum wage regulations that

came into effect on July 1. The number of men declared redundant is conservatively estimated at 10,000 out of an employed labour force of 900,000. It became illegal on July 1 to dismiss workers purely because of the minimum wage regulations. Party officials are claiming wide-spread redundancies were imposed just before the new law came into effect.

ZANU PF labour officials said that in some industrial sectors, men were being laid off and re-employed at lower wages, but there has been no comment on these accusations either from the Government or employers.

At Bulawayo at the weekend, Mr. Joshua Nkomo, Home Affairs Minister, said far more "disidents" were operating against the Government in ZANLA areas (loyal to Mr. Mugabe) than in ZIPRA areas (loyal to himself).

Mr. Nkomo deplored the fact that he had not been invited to attend the OAU meeting. If Mr. Nkomo's party were "driven out of the Government," it would be Mr. Mugabe's fault, he added.

U.S. arms rushed to Thailand

By Our Foreign Staff

THE U.S. began an emergency arms airlift to Thailand at the weekend, flying in 18 howitzers and 350 M-16 rifles in three C-141 transports. The airlift was authorised by President Jimmy Carter after the Vietnamese attack on Kampuchean refugee camps in Thailand last month.

Two more C-141s were due to arrive today, and one tomorrow, carrying M-16 rifles, 100mm recoilless rifles and ammunition. U.S. officials said the delivery of 35 M-48 tanks would also be speeded up. They are now expected to arrive by sea in September.

The total value of the equipment, ordered and paid for by Thailand before the Vietnamese attack, is put at \$32.5m. The estimated cost of the airlift—\$10m—is being borne by the U.S. Government as a gesture of support for Bangkok.

In Vietnam, Radio Hanoi yesterday accused China of shelling Vietnamese territory. The radio reported that the Chinese had poured hundreds of artillery and mortar shells into the northern province of Cau Bang, "causing dozens of casualties."

China, which supports the Kampuchean guerrillas fighting Vietnamese troops along the Thai-Kampuchean border, on Saturday sent a Note to the Vietnamese Embassy in Peking, accusing Vietnam of incessant border provocations, intensifying aggression in Thailand, and staging an incursion into Thailand.

The official Chinese news agency Xinhua earlier reported that Vietnam had killed, wounded and kidnapped more than 240 Chinese civilians in the past 14 months. Diplomats in Peking said there had been no signs of a Chinese military build-up along the border, although China has not ruled out the idea of "teaching Vietnam another lesson."

In February last year, China mounted a month-long invasion of northern Vietnam, but the diplomats noted that China has other options than to repeat the frontal assault across the border.

Reports from the Thai-Kampuchean border said fighting was continuing between Kampuchean guerrillas and Vietnamese troops. Thai military officials at the border said the guerrillas were trying to stop the Vietnamese building a road to the Malai Hills, a guerrilla stronghold near the frontier.

At a meeting yesterday in the Thai border town of Aranyaprathet, Thai military officials told some 2,000 civilians to end their black market trading with Kampuchea. The continuing border tension has added to the loss of its 900-mile border with Laos.

British journalists expelled by Iran

BY PATRICK COCKBURN IN TEHRAN

TWO BRITISH journalists, Miss Christine Powell and Mr. Roger Cooper, were released by the Iranians yesterday after agreeing to leave the country within 48 hours.

The two had been held for 17 hours after being detained by officials in plain clothes on Saturday. They said yesterday they did not know which authorities had detained them. They were interrogated separately but did not know why they were arrested. They were not ill-treated.

Miss Powell, who works for Australian radio, has lived in Iran for six years. Mr. Cooper, who has lived in the country off and on for many years, is an expert on Persian literature.

In another move against the foreign press, President Abol Hassan Bani-Sadr has asked the Revolutionary Prosecutor General to close the office of the French News agency, Agence France Presse, in Tehran and to expel its correspondents.

The President's office alleges that the text of an interview given by Mr. Bani-Sadr and published in Le Monde was distorted by AFP.

In May, Mr. Nick Cummings-Bruce, a British freelance journalist, was arrested and told to leave Iran after being detained. Meanwhile it has been announced that all women employed by the Iranian Government will have to wear an Islamic uniform designed by the Revolutionary Council and the President's office.

This will include some form of headdress (head scarf) but not necessarily the chador (long black cloak).

Over 2,000 women demonstrated against the new dress regulations on Saturday and many women in Government offices wore black as a sign of protest yesterday.

Saturday's demonstration has been bitterly attacked in the Press. The Islamic Republic daily, which is controlled by the clerical Islamic Republican Party, asked its readers to identify women taking part in the demonstration.

Some ministries have threatened to expel all women employees who fail to wear the headdress, although Mr. Bani-Sadr has said there will be no mass dismissals.

Revolutionary Guards delayed an Iranian internal flight for five hours on Saturday because the hostesses were not wearing acceptable Islamic dress.

AP and Reuters report from Moscow: Ethnic Iranians demanding visas to return home have staged a hunger strike at the Iranian consulate at Baku, in Soviet Azerbaijan.

The Iranian embassy in Moscow reported that several hundred Iranians staged a protest march to back their demands and some entered the consulate.

Mr. Mohammad Mokri, Iran's Ambassador in Moscow, said he defused the protest by leading the Iranians through the streets of Baku to the main mosque for prayers.

He explained that several hundred Iranians who had been in the Soviet Union since the 1940s now wished to return home. He promised that all applications would be studied and those supporting the Islamic revolution would be given preference.

UN Namibia council to begin uranium hearings

BY MARK WEBSTER

THE UNITED NATIONS Council on Namibia today begins hearings in New York on the controversial issue of exploiting the territory's vast uranium deposits at the Rossing Mine.

Many observers believe, however, that the hostile attitude previously displayed by the council towards the export of Namibia's natural resources make the hearing a foregone conclusion.

They cite the council's 1974 decree banning the exploitation of Namibian natural resources before the territory had achieved real independence.

Britain, which receives a large part of its uranium for civilian uses from Rossing, has refused to accept the authority of the UN body to issue such a decree.

Rio Tinto Zinc, which has a stake in the mine, has already declined an invitation to send a representative to the hearing.

Sir Mark Turner, RTZ's chairman, said he would not be available, and would not send anyone else because of the British Government's attitude towards the council.

Britain came in for considerable criticism over its imports of Namibian uranium after a television documentary revealed the circuitous route by which the uranium was airlifted to France, then taken by road to a variety of European destinations.

Since then, arrangements have been changed and the uranium is transported by ship to Europe and transferred by road to its eventual destination.

The Rossing Mine has only recently reached its maximum output of 5,000 tonnes a year, having been dogged by industrial and technical problems. At present, it is Namibia's only uranium mine.

Arabs meet on arms industry

BY RAMI G. KHOURI IN AMMAN

ARAB FOREIGN and Economy Ministers opened a three-day conference in Amman yesterday, to lay the groundwork for a series of important pan-Arab issues to be discussed here again at head-of-state level during the November Arab summit.

The Ministers of the 21 states—and the representatives of the Palestine Liberation Organisation—meeting as the Arab Economic and Social Council, will discuss a report prepared by last week's meetings in Amman of the Arab Economic Unity Council. The report aims to introduce the concept of an "Arab economic citizenship," which would remove obstacles to citizens of one Arab country wishing to invest in another.

The Ministers will also take up the question of forming an Arab armaments industry to replace the grouping of Egypt

and three Gulf States that disbanded in the wake of the Israeli-Egyptian peace agreement. They will also discuss co-ordinating Arab reactions to the normalisation of relations between Israel and Egypt.

Economic issues are expected to dominate the discussions, with non-oil-producing Arab countries taking the opportunity to complain about the effects of rising oil prices. No action on this matter is expected until the summit conference in November.

Prospects for action on the major political divisions in the Arab world are slim, though the gathering of so many Ministers is an opportunity to catalogue those problems for full treatment by the November summit.

Among points to be discussed are the recent EEC declaration on the Middle East, the Soviet

invasion of Afghanistan, Lebanon, and the most appropriate Arab response to the Camp David talks.

The Arab states are badly divided on all these points, and the best that can be hoped for here this week is agreement on how these points should be tackled in November.

The agenda also includes ways of bolstering inter-Arab economic activity to reduce collective Arab dependence on foreign economic ties, and the use of Arab resources to liberate Palestinian territories occupied by Israel.

Also to be discussed are ways of achieving more balanced development, to reduce embarrassing discrepancies between the rich and poor states of the Arab world, and agreeing on a pan-Arab economic and social development charter to boost collective Arab economic activity.

Iraqi Minister attacks 'oil stockpiling'

KUWAIT—Mr. Tayeb Abdul-Karim, Iraq's Oil Minister, has attacked Western nations for stockpiling oil supplies, and in a change of policy, has called for a limit on crude oil production.

"Regulating oil production is the only effective measure to confront Western plans aimed at constant disruption of the balance of supply and demand by stockpiling oil," Mr. Abdul-Karim told the Kuwaiti newspaper Al-Rai Al-Aam.

Iraq had always aimed at achieving a balance between supply and demand, Mr. Abdul-Karim went on.

Finding a formula for unifying prices charged by the 13-member Organisation of Petroleum Exporting Countries (OPEC), and studying ways to maintain the real price of oil were more important than simply increasing prices, he added.

Earlier this year, Kuwait, Libya and Venezuela cut production and Mr. Ali Akbar Moftakar, Iran's Oil Minister, said less oil should be lifted because stocks in consuming countries had reached record levels.

Iraq, however, did not follow the moves to cut production. The second-largest OPEC producer, it produces 3.7m barrels of crude a day.

Reuters

Turkish town tense after riot

By Metin Munir in Ankara

A CURFEW imposed on the central Anatolian town of Corum where 18 people died in sectarian riots on Friday was lifted temporarily by the Turkish authorities yesterday.

Troops were out in force and barricades were erected to prevent a renewal of the violence between the town's right-wing Sunni majority and the Alawi community.

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WORLD TRADE NEWS

India to build \$54m China plant

By K. K. Sharma in New Delhi

CHINA has agreed in principle that Birla, India's largest industrial concern, should set up a rayon manufacturing plant in China on a turnkey basis. The plant, which will use Indian technology, is expected to cost Rupees 10m (\$54.6m).

Agreement was reached between the China National Technical Import Corporation and a Birla representative who was a member of a trade delegation which visited China last month. The details of the project are now being worked out.

This is a major breakthrough for India both in economic and political terms. India and China opened trading relations a few years ago but trade has so far been nominal. Apart from being a major contract, the Birla project is therefore expected to boost trade significantly.

The deal comes at a time when there are moves to normalise Sino-Indian relations which have been cool since the border war of 1962. India has not accepted China's proposals for settling the border dispute but has indicated that it wants to begin serious negotiations. The Chinese Foreign Minister is to visit New Delhi later this year.

There has been considerable criticism here of the slow pace of normalisation of relations since Indian businessmen are keen to take part in China's modernisation and explore the potentially large market.

The Indian trade delegation signed an agreement for the purchase of 20,000 tonnes of barytes worth \$800,000 from China. The import of barytes, a mineral used in the manufacture of rayon, has been discussed. The Chinese, for their part, have made a number of inquiries on imports from India of chemicals and machinery of various kinds.

Pakistani troops face protesters

By Our Foreign Staff

TWO DIVISIONS of Pakistani troops yesterday surrounded 25,000 demonstrators outside the Pakistan Government Secretariat building in Islamabad, the Pakistani capital. The protesters, who belong to the Shia Muslim sect, were demonstrating against the compulsory wealth tax introduced last month by General Zia ul-Haq, the Pakistani leader, as part of his programme to turn Pakistan into a model Islamic state.

Diplomats in Islamabad said it was the biggest show of military force in the capital since General Zia came to power three years ago.

The Shias, who make up about 30 per cent of Pakistan's 70m population, believe the compulsory tax is against the law of their sect. They believe they can pay it only if it is voluntary.

Organisers of the protest said they intended it to be peaceful. The demonstration started after at least one man was killed and 13 were injured in fighting with police in Islamabad on Saturday. The Shias said two of their supporters were shot dead on Saturday by Police, who said only one man was killed, when he was struck by a tear gas canister. The Government made no official comment.

Shia spokesmen said there were protest marches yesterday against the violence in several Pakistani towns, including Peshawar, Lahore and Karachi.

They also said a march would be staged in Islamabad today, in defiance of martial law regulations.

Estel Hoesch in Soviet pact

DORTMUND—Estel Hoesch Werke, the West German unit of the Dutch Estel Hoesch-Hoogovens steel group, has signed a five-year technical co-operation agreement with the State Committee for Science and Technology of the Soviet Union.

The agreement, which was signed in Moscow, calls for technical co-operation in the areas of welded pipe production for oil and gas pipelines, pipeline quality control, insulation, and production of two and three-layered spiral pipe.

Estel Hoesch said the co-operation would take the form of exchanges of technical information and know-how through visits by experts, joint seminars and symposia, as well as mutual exchange of samples of new products and the exchange of test results.

Soviet and West German specialists would also jointly work on the development of new types of pipe and new steels.

AP-DJ

Oman orders more Jaguars

By Michael Dome, Aerospace Correspondent

OMAN HAS ordered a further substantial number of British Aerospace Jaguar strike aircraft, together with a number of Rapier Blindfire radars, to enhance the capability of the existing Omani Rapier missile defences.

The number of aircraft is not disclosed officially, but is believed to be 12 aircraft, enough for another squadron, worth at least \$60m without spares.

The new Jaguars will be of the latest version, powered by uprated Rolls-Royce/Turbo-Comau engines, giving improved performance in combat conditions. Oman at present has 12 Jaguars in service, with two trainers.

SHIPPING REPORT
Serious downturn for dry cargo markets

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE DRY CARGO markets have suffered their first serious setback since the U.S. embargo on Russian grain sales at the start of the year.

Over the past fortnight rates for Panamax vessels (the maximum size ship capable of traversing the Panama canal) have fallen by about a fifth and for the smaller handy sized vessels, rates are about a tenth below their June peak.

Galbraith Wrightson, in its weekly bulk carrier report, says there is no doubt that the expected usual summer depression has already arrived in the dry cargo markets which it predicts will continue until late September.

However, other shipping brokers are less sanguine. There are similarities between the current freight market and the situation which existed after the quadrupling of the oil price in 1973/74. Rates for tankers and dry cargo ships had improved steadily from mid-1972 until the end of 1973 when the tanker market collapsed. By contrast, the bulk carrier market did not start to weaken until the middle

Argentina to seek tenders for £1bn metro extension

BY ROBERT LINDLEY IN BUENOS AIRES

TENDERS WILL be called before the end of this year for the \$2.5bn (£1.07bn) project to extend the Buenos Aires underground system from its present 21 miles to more than 45 miles within the next ten years.

Two new underground lines are to be added to the existing five, three of which will be extended. The vast project includes the remodelling of the existing underground and the renewal of all the tracks, rolling stock and signalling equipment of the system.

Buenos Aires was one of the first cities in the world to acquire an underground system.

The first line—Linea A—was entrusted in 1909 to a British company called Anglo-Argentine which completed the line just under seven miles long, in December, 1913. Of the five existing lines of the network, most of which are at the point of total collapse, "Linea A" is the one which functions best today.

The last of the existing lines, all of which begin in what is erroneously called the "centre" of Buenos Aires—an area which in fact is in the vicinity of the city's new port—was not completed until 1973.

No line reaches beyond the

real centre of the city proper, the population of which today is probably in excess of 4m (the last census, in 1970, put the city's population at about 3.5m).

The Buenos Aires underground system is therefore totally inadequate for servicing the city and its sprawling suburbs with a total population of around 11m.

Even the projected extension, with the exception of one of the planned new lines, Linea G, which will reach into the industrial suburb of Avellaneda, will not push it to the city limits of Buenos Aires proper.

Swedish car sales decline 14%

BY JOHN WALKER IN STOCKHOLM

THE SALE of new cars in Sweden dropped by some 14 per cent to 36,222 units during the first half of this year compared with 112,562 units in the same period in 1979, according to the Swedish Association of Motor Manufacturers and Traders.

This downturn which began late last year is claimed to be the worst since World War II and even the present level of sales is expected to be difficult to maintain.

The two main reasons for the

decline are the current downturn in the economy coupled with the lengthy industrial strike affecting many sectors of industry which made many potential buyers hold off.

Swedish manufacturers Volvo and Saab both showed a decline in the first half of this year. Volvo sales dropped from 20,015 units in the first half of 1979 to 22,279 units in the first six months of this year, retaining almost the same market share of around 26.5 per cent. Saab sales dropped from 15,369 units

in the first six months of 1979 to 12,151 units with a drop in market share to 13.1 per cent from 13.6 per cent a year ago.

The Japanese share of the market at 15 per cent was marginally above the comparative figure for last year.

Truck sales amounted to 8,977 units during the first half of the year compared with 7,746 units in the same period in 1979. At the same time bus sales went up to 525 units this year compared with 497 units in the same period in 1979.

Congress blocks Eximbank rise

BY JUREK MARTIN, U.S. EDITOR IN WASHINGTON

THE U.S. Congress, rushing to leave Washington for the three-week holiday recess, last week chopped more than \$500m (\$217m) in supplementary spending for foreign programmes, including all the planned increase in lending authority for the Export-Import Bank.

This action was a defeat for the Carter Administration, though the setback will probably be temporary. Several senators promised to resubmit funding for the Eximbank when Congress reconvenes towards the end of the month.

The confused events in both Senate and House were not untypical. It often happens that faced with the pressures of recess deadlines and statutory budgetary spending ceilings, Congress does not mention domestic political considerations, previously agreed packages are cast aside for the time being.

In this instance, Congress balked, for obvious political reasons, at having to cut substantial sums from a Federal revenue-sharing grants to the nation's States. In order to stay within the \$16.6bn ceiling of the Supplemental Appropriations Bill for the current fiscal

year it took its axe to its favourite target, foreign assistance.

The Bill included provision for an extra \$228m in foreign spending, which Congress cut to a meagre \$126m. Lost in the wash was the Eximbank, for whom an extra \$655m had been sought and whose lending authority is now down to a scant \$25m and an additional \$80m for the World Bank. The congressional leadership only managed to salvage \$80m in aid to Nicaragua and \$40m in special international disaster assistance.

Dutch export funds running out

BY CHARLES BATCHELOR IN AMSTERDAM

INTERNATIONAL competition to offer favourable export financing deals threatens to exhaust funds provided by the Dutch Government to help its own exporters.

Requests for assistance from the Dutch "matching fund" had reached Ft 114m (£25.7m) by mid-June, more than two thirds of Ft 140m set aside for the whole of 1980, Mr. Karel Beyen, State Secretary at the Economics Ministry told Parliament.

The Dutch set up their matching fund in 1976 to enable

exporters to match the cheap low interest rate financing foreign competitors were able to offer with assistance from their own governments. A real shortage of funds now threatens.

Mr. Beyen said, in a written reply to an MP's questions, that for Ft 105m of new aid to help gain orders worth Ft 2.1bn while a further Ft 9m is needed to continue existing aid agreements. The Economics Ministry is allowed to approve support of up to Ft 140m, though the funds it may actually distribute

amount to only Ft 70m since experience has shown that only 50 per cent of the tenders are converted into orders.

In 1979 the ministry gave Ft 41m to help exporters get 29 orders worth Ft 1.3bn. The maximum it could approve last year was Ft 100m while actual was Ft 100m.

The Government hopes to meet all requests for matching aid this year, although Mr. Beyen warned that budget pressures mean no guarantee can be given that extra funds will be provided if this becomes necessary.

UK opens credit for Turkey

BY METIN MUNIR IN ANKARA

A £15m British loan to Turkey can now be drawn on following its publication in the Turkish official gazette.

The money is part of \$1.16bn pledge by the so-called Turkey Club of the Organisation of Economic Co-operation and Development (OECD) as balance of payments support in 1980.

The British loan is to be used for the purchase of UK products which the British Government considers to be "conducive to the economic, commercial and industrial development of Turkey."

The money cannot be used for the purchase of armaments, luxury and consumer goods, oil, petroleum and petroleum products.

The new loan carries an annual interest rate of 6 per cent. Repayment will begin in 1985 and be completed in 20 years.

David Tonge adds: The Turkish-British Chamber of Commerce and Industry was launched last week in London. A symposium of 200 business-

men and officials heard Mr. Tuncel Soyluer, the Turkish Consul General in London, announce that the Chamber was now seeking support and should be functioning by the end of this year.

In 1979 British exports to Turkey amounted to £48.5m and British imports from Turkey to £43m. Mr. Soyluer said that Turkey's foreign exchange difficulties, and the suspension of cover from the Export Credits Guarantee Department had contributed to restricting the growth of trade.

World Economic Indicators

| INDUSTRIAL PRODUCTION | | % change over previous year | | Index 1967=100 | |
|-----------------------|---------|-----------------------------|----------|----------------|----------|
| | May '80 | Apr. '80 | Mar. '80 | May '79 | |
| U.S. | 145.5 | 146.6 | 151.6 | 152.4 | - 4.5 |
| U.K. | 102.2 | 102.1 | 102.1 | 102.1 | - 4.7 |
| W. Germany | 131.7 | 130.8 | 132.4 | 129.3 | + 1.9 |
| Italy | 147.8 | 155.2 | 148.4 | 128.8 | +14.2 |
| Japan | 143.1 | 142.6 | 147.7 | 129.7 | +10.3 |
| France | 130.8 | 135.0 | 135.0 | 122.8 | + 2.6 |
| Holland | 172.8 | 172.0 | 172.0 | 172.0 | + 4.4 |
| Belgium | 119.2 | 108.1 | 117.5 | 109.5 | + 8.9 |
| | | | | | 1970=100 |

Backing for sale of council houses

BY ANDREW TAYLOR

STRONG support for council house sales has come from Mr. Leonard Williams, the Building Societies Association chairman. He says continued demand for owner-occupation can be met only with a more rapid transfer of houses from the public rented sector.

Writing in the latest issue of Building Society Affairs, Mr. Williams says new housebuilding is declining and fewer private rented homes are available for sale. New impetus to home ownership could be provided by the council house sales programme.

"These new owner-occupiers will help maintain a reasonable social balance within large housing estates for, until now, many local authority tenants who have aspired to ownership have left council estates and bought houses in the private sector."

"This has tended to leave local authority housing with undue proportions of relatively low-income families at one end of the spectrum and single people at the other. The sale of council houses can help preserve a better balance between various types of household."

Mr. Williams said building societies expected to play an important role in financing council house sales. But it would be undesirable for them to earmark special funds for this purpose.

"To do so would seem quite invidious when many investors who have no homes of their own are unable to secure a building society mortgage to buy a house because societies are short of money."

Mr. Williams expected that many council tenants buying in the near future would take advantage of their right to a mortgage loan from their local authority.

Protest at companies' registrar plan grows

By Christine Moir

THE BRITISH Institute of Management has joined the growing chorus of protest against Government plans to reduce the Registrar of Companies' services.

The Trade Secretary's most controversial proposal, announced in a consultative document in April, is for abolition of the Registrar of Business Names.

The Institute "strongly advises" the Trade Secretary to reconsider. The registrar is "an important protection to the public and should be extended, improved and run on an efficient commercial basis."

At present traders must register the names under which they operate, together with details of the ultimate owner.

The Registrar of Companies has said that in many cases out of date. There is no incentive for businesses to register and no enforceable penalty for non-registration.

This has aroused considerable opposition from debt-collection and credit-rating companies. They believe that abolishing the registrar would make it much harder to trace the owners of small businesses.

A group of such companies is discussing ways of keeping the registrar going privately, even if the Government decides to abandon it.

But many feel that a privately-run registrar could be open to abuse and that could give rise to a "protection racket."

MICHAEL DONNE AT HENLEY

American crews win six of 12 events

AMERICAN crews, denied the opportunity of taking part in the Olympic Games, more than adequately compensated themselves at Henley Royal Regatta yesterday, winning 6 of the 12 events.

Among the trophies that the massive U.S. contingent of national college and school crews are carrying home are: The Grand Challenge Cup (the premier Henley Trophy); the Ladies Challenge Plate; the Prince Phillip Challenge Cup; the Silver Goblet Challenge Cup; the Princess Elizabeth Cup for Schools and the Stewards Challenge Cup.

The final of the Grand was superb, a clash of giants between two national crews who might otherwise have been meeting in the Olympics — the U.S. Charles River Rowing Association and the New Zealand Waikato and Wairarua Club.

Charles River snatched an early lead and although heavily

Chemical output falls sharply

BY SUE CAMERON, CHEMICALS CORRESPONDENT

THE UK chemical industry's output was down sharply in March and April, according to provisional figures.

They also show "a stagnation in the growth of UK chemical exports," says the official publication, British Business.

It forecasts a sharp fall in business for British chemical companies, but little or no increase in the volume of chemical imports is expected this year.

Chemical exports in the first three months were £1,502bn at current prices, compared with £1,485bn in the final quarter last year. But in 1975, prices, seasonally adjusted, exports fell

slightly to \$919.2m from \$919.5m in the last three months of last year.

British Business says sterling's continuing strength, the rapidly increasing costs of UK production and increased competition overseas "are among the factors that have led to this stagnation in the growth of UK exports."

The production index for the first three months is estimated at 118.6 (1975=100), much the same as for last year's fourth quarter. But, it says, this "masks the sharp fall in output in March and April."

"Although it would be imprudent to read too much into

these provisional figures, it seems likely that the industry is now entering a recession."

"The current fall in demand is also being exacerbated by a rundown in stocks from the high levels built up in 1979 and, given the somewhat bleak outlook for the economy in 1980, the prospects for the industry are not bright."

The cost of materials and fuel rose by a "further 10 per cent" in the first three months "to a level over 40 per cent higher than a year ago." This is said to reflect the sharp rise in oil prices and petrochemical feedstocks last year.

Investment in the industry is

estimated to have risen by about 10 per cent in the first quarter, after declining steadily since the middle of 1978. But this is still "some 8 per cent" lower than in the first quarter of 1979.

British Business says an Industry Department survey of investment intentions indicates a downward trend for the rest of this year.

Sales of principal chemical products (in 1975 prices) fell from £2,106bn in last year's final quarter to £2,087bn in the first three months of this year. Chemical imports, also at 1975 prices, fell from £682m to £640m.

EEC regime 'favours French apples'

BY RICHARD MOONEY

THE CONTROVERSY over imports of French apples into Britain has been riddled with "rumour and misinformation," according to Mr. Christopher Jackson, Conservative Member of the European Parliament.

Introducing a report published today by the European Democratic Group, he said they had been unable to find any hard evidence of illegal subsidies to enable French Golden Delicious supplies to undercut traditional British apples like Cox's in the market.

But the report does show that

the EEC intervention system discriminates unfairly against northern European varieties of apple.

"French Golden Delicious cost two-thirds as much to produce as Cox's but the Golden Delicious growers get an intervention price twice as high as for British apples."

This enabled the French to plan for an exportable surplus with intervention as an effective backstop.

The intervention system should be scrapped, the report says, and the money saved

(about £24m a year) spent on restructuring the apple-growing industry. It also calls for stricter control of grading so that only top-quality fruit is sold in the EEC.

The group will press for action to remove the disadvantages suffered by British growers before the new southern apple season starts in the autumn.

But it warns that the British will still need to improve their efficiency, especially in marketing, to benefit fully from any juster EEC regime.

Big Midlands companies give backing to beginners

BY LORNE BARLING

SOME OF the largest companies in the Midlands, such as Lucas Industries, GKN and Cadbury's are backing a serious attempt to generate business activity through new small companies, many of them involving redundant workers and dislocated management.

A group of 16 major companies is contributing up to £3,000 a year to Birmingham Venture, a scheme run by the Birmingham Chamber of Commerce, in an effort to regenerate industry at a time of extreme pessimism in the area.

The aim is to allow new small businesses to draw on the experience and resources of large companies to get themselves established, although its backers admit it can have little immediate impact on the large number of redundancies in the area.

Since the start of the scheme at the beginning of the year, 16 major companies have attracted double the number they can accommodate and support from Midlands companies is "growing fast."

Participants also include the four clearing banks, Bryant Construction, Delta Rod Holdings, Kalamazoo, and ATV Network.

Mr. Graham Ashmore, organiser of the scheme, said: "Many of the people who

intend to start new businesses are either tired of being pushed around by unions, or find their drive blocked by senior management."

There were others who had lost their jobs in mid-career and intended to use their redundancy money in a last effort to become self-employed and independent.

Most encouragement is being given to new manufacturing enterprises, which make up about a third of inquiries. Assistance is being provided where possible, such as the recent testing of an engineering product by GKN.

Progress is being made on

the provision of industrial premises at sites which the large companies do not need, and the development of special "nursery" units is being considered.

Advice given to potential manufacturers covers accounting, banking, property and marketing, usually in the form of lectures by experts on each subject. Some large companies are offering to sell complementary products in export markets.

So far, Birmingham Venture has assisted in the setting up of a small number of companies. With more resources from increasing membership, it believes this will rise steadily.

£4.95 for BR breakfast

BY JAMES McDONALD

THE PRICE of British Rail's traditional English breakfast on Inter-City services, which has been similar to that of the Savoy Hotel, increases by 15 per cent today, from £4.30 to £4.95.

This is part of an average 10 per cent rise in refreshment prices in restaurant and buffet cars.

The increase is the second

yesterday it had been necessary because of higher operating and material costs and staff pay rises. A 10 per cent rise in station buffet prices was introduced last week.

A British Rail traditional breakfast consists of a choice of porridge, cornflakes, fruit juice or grapefruit, kippers or egg, bacon and sausage, tea or coffee, toast, rolls, marmalade or honey.

The General Electric Company Limited

Another year of sound progress

Record Sales

Sales exceeded £3,000 million for the first time, more than twice the figure for 1975.

Record Exports

Exports exceeded £800 million, nearly three times the figure for 1975.

Record Employees' Earnings

Average annual remuneration per employee at home and overseas was nearly two and a half times the figure for 1975.

Record Profits

Profits, at £415 million, were two and a half times the figure for 1975.

Record Dividend

The dividend of 8.25p per share is over two and a half times the figure of 3.03p for 1975.

Results for the year ended 31st March, 1980.

| | 1980 £ million | 1979 £ million |
|---|-------------------|-------------------|
| Sales (Outside the Group) | 3,006 | 2,501 |
| Profit before taxation on historical cost basis | 415 | 378 |
| Profit before taxation current cost basis | 295 | 305 |
| Taxation | 156 | 133 |
| Profit after taxation | 259 | 245 |
| Minority Interests | 9 | 7 |
| Dividends | 250 | 238 |
| Current Cost Adjustments | 45 | 34 |
| Increase in Net Book Worth | 89 | 133 |
| | 205 | 204 |
| | 205 | 204 |

| | Turnover (incl. inter-group sales) | | Historical Cost Profit before Taxation | |
|---|---------------------------------------|--------------|---|------------|
| | 1980 | 1979 | 1980 | 1979 |
| | £m | £m | £m | £m |
| United Kingdom | | | | |
| Power Engineering | 427 | 401 | 46 | 56 |
| Industrial | 334 | 327 | 48 | 55 |
| Electronics, Automation and Telecommunications | 1042 | 862 | 135 | 101 |
| Components, Cables and Wire | 397 | 328 | 35 | 35 |
| Consumer Products | 303 | 278 | 21 | 24 |
| Associated Companies | 116 | 91 | 3 | 6 |
| Overseas | | | | |
| Subsidiaries | 688 | 487 | 61 | 47 |
| Associated Companies | 227 | 145 | 24 | 16 |
| Other Activities and Items | 20 | 22 | 9 | 4 |
| Interest Receivable, less Payable and Investment Income | — | — | 33 | 34 |
| | <u>3,554</u> | <u>2,941</u> | <u>415</u> | <u>378</u> |
| | ===== | ===== | ===== | ===== |

Turnover and profits of associated companies are included to the extent of the Group's interest in them.

Turnover and profits of associated companies are included to the extent of the Group's interest in them.

Extracts from the Chairman's Statement.

"Since the resources of GEC, AEI and English Electric were amalgamated, we have tried to contribute towards the establishment of rational structures in the industries in which our Group participates. As a result, the Company is in a better position to face the predicted recession than a good many others. The complete justification for the harsh decisions we had to make following the mergers twelve years ago is that there is not today any doubt that your Company can withstand the challenges of the next difficult years. To have evaded or postponed those decisions would have brought retribution now, for we would certainly have found ourselves facing possibly insoluble problems. This is not to say that we will not have problems in GEC in the future which will have to be dealt with as they arise; it is only to say that when we said in the past that things were necessary, they were. During the years since the mergers, we have in fact disposed of more businesses in the UK than we have acquired, the disposals usually occurring because we were satisfied that others could make better use of the resources involved than we could, and the acquisitions because we thought they would function better in GEC than left as they were. It was the application of these principles which led to bringing into our group the activities of A. B. Dick and of Averys. The record clearly shows this course to have been right; in general we have managed more effectively and productively the businesses we have acquired; and so too, have those who bought businesses from us."

"The recent Special Conference of the Labour Party adopted as part of the policy of a future Labour Government a commitment to nationalise certain private concerns without compensation. It is astonishing that there has been no public outcry against such a blatant threat of confiscation. Even today, the principle of fair treatment at the hands of the State is being seriously eroded, as illustrated by the acquiescence of the present Government in the grossly unfair compensation terms of the Aircraft and Shipbuilding Industries Act, 1977, terms which, in opposition, they vehemently and explicitly condemned as palpably unjust. It is a plain fact that this basis of compensation in respect of the Company's shareholding in the British Aircraft Corporation (Holdings) Limited, which was sequestered on 29th April, 1977, is not in accordance with the international standards to which the Government professes to subscribe. Further, there is no intention to make good the fall in the purchasing power of money since that time; the interest carried by the compensation stock is, even before corporation tax, much less than the inflation rate."

Nelson of Stafford

GEC

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UK NEWS

'Downturn for power equipment suppliers'

by Andrew Williams

MANY UK power supply manufacturers which serve the electronic equipment industry will not survive the recession, says a report from market analysts, Larsen Sweeney.

Those which do survive may find their products becoming uncompetitive compared with European rivals it says.

"What must be disturbing for UK power supply manufacturers is that their competitors in West Germany, France, Sweden and Japan are receiving considerable governmental aid in one form or another," says the report.

Larsen Sweeney expects a general downturn throughout Europe in power supply sales until 1986. For the UK, it forecasts an average real growth of only 11.7 per cent a year compared with an earlier forecast of 33.3 per cent.

France's power supply industry is expected to grow in real terms by an average of 19 per cent in the six-year period compared with a previous forecast of 37.7 per cent. Germany is likely to have the highest European growth of 23.4 per cent in real terms.

Larsen Sweeney says that in addition to the industry's downturn there are signs that manufacturers are not adopting new technologies which have been developed for power supplies.

The analysts attribute this to reluctance to introduce and interest in the development of new models.

Rapid interest rate fall forecast

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

INTEREST RATES are likely to fall quite rapidly in the second half of this year, Midland Bank economists forecast this morning.

The latest Midland Bank quarterly review — written before Thursday's one point cut in Minimum Lending Rate to 16 per cent — says such falls would be the result of the decline in economic activity to which the Budget measures have contributed.

The review says the first of the Government's objectives, bringing down the growth of the money supply, is at last beginning to seem within reach.

"The second stage will be to ensure that this feeds back to expectations about inflation and in particular into wage settlements. But this seems unlikely to occur of its own accord, at least until the actual rate of inflation is seen to be declining, and any marked deceleration still seems a long way off," the bank review argues.

After Thursday's MLR cut, stockbrokers Wood Mackenzie predicted further gradual reductions to about 13 per cent at the end of this year.

Other analysts remain concerned about some of the underlying monetary developments, particularly the trends of public spending and borrowing.

For instance, brokers de Zoete and Bevan argue that to react to political pressures by reducing interest rates even further — and before credit demands have subsided substantially, would risk creating a

disequilibrium in the credit markets. The brokers see evidence that the budget deficit may now be rising.

Brokers James Capel and Co. forecast that public sector borrowing could exceed the £3.5bn limit for 1980-81, by between £1.5bn and £2bn unless further spending cuts are introduced.

The brokers note that strong recessionary forces now at work are likely to lead to an unprecedented drop of more than 4 per cent in total output, as measured by real Gross Domestic Product, between 1979 and 1980.

Brokers Phillips and Drew also discuss possible severe difficulties in controlling public spending both this year and in 1981-82. In the current financial year a moratorium on new local authority capital projects might offset some of the overrun on current spending and bring overall public borrowing down to £3.4bn.

This would mean the savings from the UK's EEC Budget contribution would not go to a cut in public borrowing as was originally hoped.

Looking ahead to 1981-82, Phillips and Drew say a combination of problems may threaten the Government's plans to cut public expenditure by 1.7 per cent in 1981-82.

Unemployment may be higher than the Treasury assumes, the relative price effect — the relationship of public-sector costs to prices generally — may be less favourable than expected and the projection for interest payments may be too optimistic.

Consequently, the Government may need a further round of cuts, amounting to £1bn, to hold next year's spending to the levels set out in the March White Paper.

Seeking closer EEC links

AN EIGHT-MAN delegation from the UK's EEC Industrial Development Association will fly to Strasbourg today for a three-day visit to the European Parliament.

The aim is to build closer links between the EEC and North West Euro MPs.

Scottish Ferranti response praised

By Roy Fernan, Scottish Correspondent

SCOTTISH financial institutions gave an entirely satisfactory response to the placing of Ferranti shares last week and bought a fifth of the equity on offer, Mr. Alex Fletcher, Scottish Industry Minister, said yesterday.

Scottish funds were criticised by Sir Arthur Knight, chairman of the National Enterprise Board. He said they had not been as enthusiastic as expected, given the strong campaign from Scotland to persuade the Government to safeguard the company's independence.

Some institutions declined to take any shares because of the two-year restriction on sale imposed by the NEB at the Government's request.

Mr. Fletcher rejected any suggestion that Scotland had not played its part in taking up shares. Scottish funds had bought as much of the company as their weight relative to City of London institutions would suggest they should have done.

"In their normal canny way Scottish institutions were responsive about the deal, but they took a fifth of the placing, which was a perfectly respectable share."

"They would possibly have taken more if a Scottish bank or broker had been involved in the placing. It might have been helpful to have someone with good local knowledge and contacts."

The placing was made by Cazenove assisted by Greaves, Milner, and Savory.

Mr. Fletcher said the 530p-a-share price had made some UK pension funds sceptical about the offer, in view of the two year embargo on sale. The fact that the offer had entirely been taken up indicated that the price had been judged correctly.

ELINOR GOODMAN AT THE TORY REFORM GROUP CONFERENCE 'Wets' seek the middle way

MR. PETER WALKER, Agriculture Minister, could hardly have chosen a more sympathetic audience for his confession of doubts about current Conservative Party ideology than this weekend's Tory Reform Group meeting.

The 400 or so members at Warwick University would have felt that as their patron, Mr. Walker would have let the side down if he had done anything but register dissent.

The Tory Reform Group is about as far from the Government as you can get and stay in the Conservative Party, without slipping over the other side into the Liberals. It stands for Disraeli's "One Nation" and the "middle way."

In its view, the Government has deserted these principles in a dogmatic pursuit of monetarism. The group agrees with the Government's basic belief in the need to put the economy in order, but it cannot stand what it regards as the Government's blinkered refusal to recognise the social and political implications of its policies.

The group believes its job is to counteract the pressures on the Government from what one member described as the "toadies" on the Right and to give moral backing to those arguing for a more flexible line in Westminster.

The conference was billed in advance by the group as the "weekend of the wets," and by comparison to some delegates' views, Peter Walker was a positive hawk.

Pay policy, Government intervention in industry, proportionate representation and other such heretical ideas were heavy in the air.

At times, listening to the discussions of the delegates — mostly young, fresh-faced, mild-mannered and moderate in the extreme — it was difficult to believe they belonged to the same party as Mrs. Thatcher. This impression was strengthened by the fact that she was rarely mentioned by name.

When anybody wanted to refer to her policies, they tended to attribute them to Sir Keith Joseph, Industry Secretary. At the mention of his name a hiss of derision went

round the room in much the same way as when Mr. Anthony Wedgwood Benn's name is mentioned at other Conservative gatherings.

Almost all the discussions began from the supposition that the Government was in danger of taking the wrong direction, if it had not already done so.

In one group, the chairman began by demanding to know whether there was anybody prepared to defend the Government's line on industrial democracy. A lone hand went up only to be withdrawn rapidly.

The chairman had gazed disdainfully at it as if at some nasty intruder from the Monday Club.

Monetarism

The purpose of the meeting was to work "towards an alternative strategy." Asked what the strategy was supposed to be, an alternative to, one delegate answered, "Armageddon." A more frequent reply was strict monetarism.

The alternative was not always clear. While one study group was dismissing a formal incomes policy as unworkable, another group next door was much keener on the idea.

As one delegate said, unconsciously echoing the frustration of some Ministers, "ours is a much more complicated message to get over than theirs."

Generally, it was much easier to agree on what would not work — free collective bargaining, for example.

There was also a general consensus about what was wrong with Government policy and about the need — as Peter Walker put it — to "balance efficiency with compassion."

And, if this means doing something to help industry and safeguard jobs, then this is a view which is beginning to be expressed by MPs who would flinch at the label, "wet."

Mr. Nicholas Scott, one of four backbenchers present, said the group had succeeded this year in "judging the Government's door open." There were some delegates who agreed that the group had scored significant successes in spite of the countervailing tide of monetarism.

The decision to go for a settlement in Rhodesia, which involved all the black groups, rather than only Muzorewa's, was seen as one victory for the group's line.

Other delegates pointed to recent Government decisions to help individual industries. Some said the group's biggest triumph was the fact that the Right had not succeeded in getting anything like as much as it wanted out of the Employment Bill, now going to the Lords for its final stages.

But it has been the Right

which has been getting all the publicity in the Parliamentary party recently, on both the Employment Bill and public expenditure cuts. Friday's opinion poll, showing the Government only just behind Labour in popularity in spite of escalating prices and unemployment, has hardly strengthened the hands of the doves in Cabinet.

"So what can we do to fight the treads and help Jim Prior?" one delegate asked, summing up the immediate task for the future. The answer seemed to be to provide those MPs and Ministers arguing for a more flexible approach in Westminster with evidence that they are not alone.

Strategy

In the long term, it was hoped, the group would produce some coherent alternative strategy. But, judging by the papers to emerge yesterday, all it can really hope to do is reflect the mood of a certain part of the party and hope the "wets" catches on.

One organiser said there were many MPs who believed in what the Tory Reform Group said, although they would have to be identified publicly with it.

"All we can do for the moment is act as a pretty small tail to the dog, and hope the dog starts moving our way."

BUSINESSMAN'S DIARY UK TRADE FAIRS AND EXHIBITIONS

| Date | Title | Venue |
|------------|---|------------------------------|
| Current | Autumn 80 Lightshow (04288 396) (until July 10) | NEC, Birmingham |
| July 8-10 | Great Yorkshire Agricultural Show (0428 61556) | Harrogate |
| July 9-26 | Royal Tournament (01-630 6008) | Earl's Court |
| July 11-20 | Taste of Asia Exhibition (01-273 4287) | Olympia |
| July 15-16 | Exhibition and Conference on Micro Technology—MICROFAX (061-236 4512) | Manchester |
| July 18-20 | Motor Cycle Show (0384 56348) | Chester |
| July 20-24 | Gift Fair (0282 887133) | Exhibition Centre, Harrogate |
| July 22-24 | Microcomputer Show (0395 32262) | Wembley Conference Centre |
| Aug. 1-4 | Scottish Furniture Trades Exhibition (041 946 1954) | Kelvin Hall, Glasgow |
| Aug. 3-7 | International Gifts Fair (01-855 9257) | Olympia |
| Aug. 10-14 | Computer Graphics Exhibition (0274 28211) | Metropole Hotel, Brighton |
| Aug. 15-18 | Ideal Home and Leisure Exhibition (0202 20337) | Newcastle University |
| Aug. 14-25 | British Musical Instruments Trade Fair (01-855 9201) | Olympia |
| Aug. 20-23 | Ideal Home and Trade Exhibition (06333 64538) | Leisure Centre, Pontypool |
| Aug. 20-25 | Modern Homes Exhibition (0253 54576) | Guildhall, Preston |
| Aug. 23-25 | Trade and Entertainment Exhibition (0689 34451) | Moat Park, Malden |

OVERSEAS TRADE FAIRS AND EXHIBITIONS

| Date | Title | Venue |
|------------------|---|-------------------------|
| Current | International Training and Educational Symposium and Exhibition—INSTRUCTA (01-436 1951) (until July 11) | Johannesburg |
| July 11-17 | National Boat Show | Melbourne |
| July 16-24 | International Photogrammetry Trade Exhibition | Hamburg |
| July 26-Aug. 3 | Trade Fair | Dortmund |
| Aug. 6-17 | Modern Family Exhibition (02013 4450) | Hamburg |
| Aug. 10-14 | National Fair | Chicago |
| Aug. 11-17 | International Fisheries Fair | Oslo |
| Aug. 19-Sept. 4 | International Exhibition of Agriculture and Food Industry—OMECE | Budapest |
| Aug. 20-Sept. 20 | International Fair | Imbi |
| Aug. 22-24 | Wellington Home Show | Wellington, New Zealand |
| Aug. 23-27 | World Woodworking Exposition | Atlanta |
| Aug. 26-29 | Offshore North Sea Technology Conference and Exhibition | Stavanger |
| Aug. 30-Sept. 3 | International Bridge and Structural Engineering Exhibition | Vienna |

BUSINESS AND MANAGEMENT CONFERENCES

| Date | Title | Venue |
|-----------------|---|-------------------------------|
| Current | University of Bradford Management Centre: Sales Management (Bradford 42299) (until July 11) | Heston Mount, Bradford |
| July 7-11 | Institute of Personnel Management: The Work of The Personnel Department (01-387 2344) | Embassy Hotel, W3 |
| July 8 | BIM: Micros—The real costs and how to fund them (01-405 3456) | Mount Royal Hotel, W1 |
| July 9 | Institute of Chartered Secretaries: The Companies Act 1960 in Practice (01-850 4743) | London Press Centre |
| July 9-10 | The Plastics and Rubber Institute: Plastics on the Road (01-245 9555) | Kenilworth |
| July 11 | ESG: Norwegian Taxation: A specialist conference for the oil and gas industry (067 282 2711) | Carlton Tower Hotel, SW1 |
| July 14-18 | ASM: Inventory Control and the Microcomputer (01-385 1992) | Pembroke College, Oxford |
| July 14-25 | FT Course: Financial Management for the non-financial executive (01-621 1355) | The City University |
| July 15 | Oyez IBC: Estate Agents' Remuneration—Sell a Property and get no commission? (01-242 2431) | Duchess Mews, W1 |
| July 16 | LOCI: Iraq (01-245 4444) | Cannon Street, EC4 |
| July 17 | Oyez-IBC: How to Cope with Personnel Problems (01-242 2431) | Cannock Conference Centre, W1 |
| July 17-18 | Brunel Institute: Inter-Personal Effectiveness Workshop (0896 56461) | Uxbridge |
| July 20-25 | Oyez-IBC: The Language of the Law (01-242 2431) | Lady Margaret Hall, Oxford |
| July 23-24 | The Institution of Civil Engineers: Flood Studies Report—5 years On (01 222 7772) | University of Manchester |
| July 22-23 | Online: Microelectronic Applications (08274 28211) | Wembley Conference Centre |
| July 22-23 | University of Bradford Management Centre: The Causes and Symptoms of Company Failure (Bradford 42299) | Heston Mount, Bradford |
| July 23 | Bacie: Introduction to Television in Training (01-636 3351) | City University, London |
| July 28-Aug. 15 | Compover Training School: Basic COBOL (Cannock 2511) | Cannock, Staffs |
| Aug. 3-Oct. 24 | Bacie: Overseas Training Officers Programme (01-636 3351) | Oxford |
| Aug. 4-6 | MSS: Inventory Management and Control (Worthing 34755) | Worthing |
| Aug. 6 | LOCI: Middle East and North Africa Section "At Home" (01-245 4444) | Cannon St. EC4 |
| Aug. 7-8 | British Institute of Management: Effective Speaking—Practice and Coaching using Closed Circuit TV (01-405 3456) | Parker Street, WC2 |
| Aug. 10-24 | University of Western Ontario: The 1980 International Symposium on Solar Energy Utilization | Ontario, Canada |
| Aug. 11-15 | CCC: Practical Introduction to UK Business Law (01-222 6352) | Trinity Hall, Cambridge |
| Aug. 11-12 | MSS: Principles of Work Study and Incentive Schemes (0903 34755) | Worthing |
| Aug. 11-22 | CEI: International Financial Management Seminar | Geneva |
| Aug. 18-19 | The British Institute of International and Comparative Law: Multinational Corporations and the International Law Standard (01-636 3352) | Geneva |
| Aug. 26-28 | FT Conference: Aerospace into the Eighties and Beyond (01-621 1355) | Royal Garden Hotel, W8 |
| Aug. 28-29 | BDM: Rapid and Efficient Reading (01-405 3456) | Royal Lancaster Hotel, W2 |

TSB BASE RATE

With effect from the close of business on Monday 7th July 1980 and until further notice TSB Base Rate will be 16% per annum.



TRUSTEE SAVINGS BANKS

Central Board
P.O. Box 33, 3 Cophthall Avenue, London EC2P 2AB

FREE STATE DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

(Incorporated in the Republic of South Africa)

PROFIT ANNOUNCEMENT, BALANCE SHEET AND NOTICE OF FINAL DIVIDEND

Subject to final audit the abridged income statement of the Company for the year ended 30th June, 1980 and the abridged balance sheet at that date are as follows:—

| | Year ended 30.6.1980 R000 | Year ended 30.6.1979 R000 |
|---|---------------------------|---------------------------|
| Income from listed investments | 1,630 | 763 |
| Royalties and share of net mining profits | 172 | 39 |
| Other income | 24 | 24 |
| | 1,826 | 826 |
| Less: Administration expenses | 68 | 63 |
| Net normal income for the year | 1,758 | 763 |
| Add: Profit on realisation of investments after reversing provisions for possible losses on future realisation of investments | 37 | 91 |
| Profit before taxation | 1,795 | 854 |
| Less: Taxation | 35 | — |
| Profit after taxation | 1,710 | 854 |
| Less: Interim dividend No. 15 of 10 cents per share (1979: 5 cents) | 363 | 151 |
| Final dividend No. 16 of 25 cents per share (1979: 10 cents) | 907 | 363 |
| | 440 | 310 |
| Add: Retained profit at 30th June 1979 | 3,421 | 3,111 |
| Retained profit at 30th June 1980 | R3,861 | R3,421 |

BALANCE SHEET

| | Year ended 30.6.1980 R000 | Year ended 30.6.1979 R000 |
|--|---------------------------|---------------------------|
| NET ASSETS: | | |
| Listed investments—at cost less provision for possible losses on future realisations. Market value R27,149,000 (1979: R12,947,000) | 5,658 | 5,222 |
| Unlisted investments and mineral and participation rights | 1 | 1 |
| Loan portion of taxation | 3 | 3 |
| Net current assets | 14 | 10 |
| | R5,676 | R5,236 |
| FINANCED BY: | | |
| Issued share capital | 1,815 | 1,815 |
| Distributable reserve | 3,861 | 3,421 |
| | R5,676 | R5,236 |

FINAL DIVIDEND NO. 16

A final dividend of 25 cents per share in the currency of the Republic of South Africa has been declared in respect of the year ended 30th June 1980. This dividend, together with Interim Dividend No. 15 of 10 cents per share declared in January 1980, makes the dividend declared out of profits for the year 35 cents (1979: 15 cents).

The dividend is payable to members registered in the books of the Company at the close of business on 25th July, 1980, and is declared subject to conditions which can be inspected at or obtained from the Company's Johannesburg Office or the Office of the London Secretaries (Barbato Brothers Limited of 99, Bishopsgate, London EC2M 3XE).

Subject to the said conditions, payments by the London Secretaries will be made in United Kingdom currency at the rate of exchange quoted by the Company's bankers on 13th August, 1980; provided that in the event of the Company's bankers being unable to quote such a rate of exchange on that day, then the currency of the Republic of South Africa shall be converted at the rate of exchange quoted by the Company's bankers on the next succeeding day on which such rate is quoted.

Dividend warrants will be posted from either the Johannesburg Office or the Office of the London Secretaries, as appropriate, on or about 22nd August, 1980.

South African Non-Resident Shareholders' Tax at the rate of 15% and United Kingdom Income Tax will be deducted from the dividend where applicable.

The Share Transfer Books and Register of Members will be closed from 26th July to 2nd August, 1980, both days inclusive.

By Order of the Board
JOHANNESBURG CONSOLIDATED INVESTMENT COMPANY, LIMITED
Secretaries
per: D. A. Freeman

Head Office and Registered Office:
Consolidated Building
Corner Fox and Harrison Streets
Johannesburg 2001
(P.O. Box 590, Johannesburg 2000)
4th July, 1980



Habib Bank Limited

We are pleased to announce commencement of operations, from 7th July, 1980, in HONG KONG, of our subsidiary

HABIB FINANCE INTERNATIONAL LIMITED

502 Abdoollally House,
20 Stanley Street,
Central, Hong Kong
Hong Kong

Cable: PakHabib, Hong Kong, Telex: 61181

Telephone Nos. 5-215131 and 5-215132

Habib Bank Limited has a well spread, world wide network of branches, representative offices, associated companies and correspondents. We can help and advise you on all aspects of your business and provide all banking and related services to meet your personal and corporate requirements.

For all your international banking requirements, let Habib Bank serve you better.

HABIB BANK LIMITED

| | |
|---|--------------------|
| Head Office, Habib Bank Plaza, Karachi 21, Pakistan | |
| Paid-Up Capital and Reserves | Rs. 502 million |
| Deposits | Rs. 23,169 million |
| Total Assets | Rs. 34,970 million |

Williams & Glyn's

Interest Rate Changes

Williams & Glyn's Bank announces that with effect from 7th July 1980 its Base Rate for advances is reduced from 17% to 16% per annum

Interest on deposits at 7 days' notice is reduced from 15% to 14% per annum.

WILLIAMS & GYLN'S BANK LTD

UK NEWS - LABOUR

Call for summit on the North's problems

By John Lloyd, Labour Correspondent

A "SUMMIT" conference on the economic problems of the North has been called for by the North Eastern Council of the TUC.

The call at the council's quarterly meeting at the weekend, follows the publication of the worst redundancy figures for years.

They showed that nearly 30,000 workers were laid off in the first six months of this year, only a few hundred less than in the previous 12 months, and nearly 2,000 more than in 1975.

Mr. Joe Mills, regional secretary of the Transport and General Workers' Union who proposed the summit, said that it should include industry, commerce, the banks, senior civil servants, academics and MPs of all parties, as well as the trade unions.

"All of these organisations have been making representations to Government on our high rate of unemployment for many years now. The time has come for all the organisations to speak with one voice and say, enough is enough."

Rail union draws detailed plans to shut network

By Philip Bassett, Labour Staff

BRITAIN'S BIGGEST rail union, the National Union of Railwaymen, has drawn detailed plans for selective strike action by key signallers. Union leaders say it could shut the country's rail network.

There are two reasons for the confidential plans. They are designed to be ready to support a pay dispute over the "substantial" claim agreed last week by the union's annual conference in Guernsey. They could also be used to combat any court decision affecting the union arising from the provisions of the Government's Employment Bill when it becomes law.

Mr. Sid Weighell, NUR general secretary, warned conference delegates: "We may be faced next year with the need to take industrial action. This legislation is designed to curb us and inflict punishment on our families if we go on strike."

Government officials are already concerned about the growing tendency of unions in the public services to use selective action, especially against computer installations.

Details of the union's plans have been put together by senior union officials based on a series

of reports prepared at local level by district officers.

Local officials were asked by Mr. Weighell to identify signal boxes in their areas which, if closed by striking operators, would have the maximum disruptive effect on rail services in the area.

The union represents about 7,700 signallers, managing about 2,000 boxes. The boxes most likely to bear the brunt of selective action would be the 200 or so controlling the most important stretches of track.

The effect of withdrawing crucial signal staff can be gauged by the complete stoppage of all services earlier this year in and out of London's Paddington Station. Then, signallers at the Old Oak Common box between Paddington and Hayes, Middlesex, were pulled out over the alteration of working rosters.

Mr. Weighell said that if the signallers at the selected list of boxes were withdrawn "we could stop the country."

The union hopes to minimise the financial burden of any dispute over pay or the Employment Act by instructing only

this small number of workers to strike rather than using the blunter—and more expensive—weapon of action by the full 180,000-strong membership.

British Rail is prepared to ask its unions to ballot members if union leaders fail to agree on proposals designed to improve railway productivity. The proposals were an integral part of this year's 20 per cent deal for BR's 180,000 main-line workers.

While senior BR officials recognise that such a determined stand over the productivity improvements to freight, parcels and administrative services could lead to confrontation, they are prepared for the rail network to be shut by industrial action in their efforts to see the changes implemented.

Sir Peter Parker, BR chairman, and other board members, were particularly displeased with reports of a speech made by Mr. Bill Ronskley, ASLEF president, at the union's Sheffield conference. Mr. Ronskley was reported as casting doubt over the union's acceptance of the productivity proposals, calling them "slavery."

Benn hints at wages policy

By John Lloyd, Labour Correspondent

MR. ANTHONY WEDGWOOD BENN, the Labour Party's leading Left-winger, and former Cabinet Minister, said yesterday that the new type of consensus which he wants to see between Government and the trade unions would include a wages policy of sorts.

Mr. Benn said on ITV's programme Trade Union Power, that the consensus would involve broadening collective bargaining from merely wages to include investment and other aspects of corporate policy.

He said it would include wages as part of the collective bargaining process. But it would not isolate wages and say if you control wages, the economy would recover—it would not.

Mr. Benn saw this stage of the consensus as one in which Labour was "an equal partner" with business. In the next stage, Labour would be the major partner.

The previous stage had seen it as the junior partner, where incomes policies were imposed from above by both Labour and Conservative governments, and rejected by the unions.

ROBIN REEVES ON WELSH MINERS' FEARS

Call for help from the pits

SOUTH WALES miners see this week's annual conference of the National Union of Mine-workers in Eastbourne as one of the most important in their long turbulent history.

Mr. Emyln Williams, the South Wales Miners' president, and the rest of his delegation arrive with a demand from the coalfield's 26,000 miners for industrial action should the National Coal Board attempt to close pits because of loss of markets.

Anything less than a solid endorsement of this long-standing policy by the rest of the British miners will be regarded as a serious setback to South Wales' prospects of fighting off pit closures and redundancies.

They may face scepticism. Last year's NUM conference in Guernsey was notable for the Welsh miners' appeal for a flexing of industrial muscle against the threatened closure of Deep Duffryn colliery in Mid-Glamorgan. They got it, but when they had squeezed an extra £500,000 out of the NCB to explore a new face at the pit, the geology proved unfavourable and the Deep Duffryn colliery was eventually given up the fight three months later.

But this time the South Wales fears seem justified. Although the Coal Board has officially announced the closure of only one pit—Tymawr Lewis Merthyr in the Rhondda—it is clear that many more are threatened.

Pressed by the Commons Select Committee on Welsh Affairs in May, Mr. Philip Weekes, the NCB's South Wales director, admitted that of the 35 remaining South Wales collieries, six employing 4,300 men would need to be closed in the near future to cut mounting financial losses.

Moreover, if the NCB proved unable to extend the special subsidy it has extended to coking coal this year, six more collieries employing the same number would also have to close. Among them, these pits were now losing up to £20 a tonne, or a total of £35m a year.

"Around the neck of the South Wales coalfield," Mr. Weekes said.

Since he spoke, the outlook has become even bleaker. The overriding reason for the South Wales coalfield's sudden deteriorating finances is the drastic cutback in the Welsh Steel industry. BSC's decision to halve steel production at Port Talbot and Llanwern and rely entirely on imported coking coal at Port Talbot has already reduced the market for South Wales coking coal by 1.7m tonnes in a full year.

Now there is evidence that one of the first acts of Mr. Ian MacGregor, BSC's new chairman, could be to close one of the two works. And if, as seems more likely, Llanwern is axed (it has no deep water port) this will wipe out the market for 1.4m more tonnes of coking coal, boosting the number of threatened pit closures to 20 and redundancies to 15,000.

In addition, a £40m capital injection required to modernise the phosnic plant in the Cynon valley looks unlikely to be obtained. This means the plant, and the four pits which supply it with coal for processing, will have to be run down gradually over the next few years, wiping out another 5,000 jobs.

Seeing this scenario unfolding, Wales TUC leaders issued their call last Christmas for an all-out strike in the steel, coal and transport industries from January 21 — to obtain a two-year delay in the steel rundown.

This display of Welsh initiative was firmly set upon by the British TUC leadership in London, whereupon Mr. Williams and his executive attempted to "recover the position" by going it alone and calling on the miners alongside the striking steelworkers, Mr.

Williams freely admitted it was an act of political confrontation. "We shall be missing the boat if the steelworkers go back to work and are defeated on jobs," he said at the time.

In the event the strike call was rejected, and with it collapsed all resistance to BSC's retrenchment.

Even so, Mr. Williams is confident his miners will answer the call next time. He interprets the rejection as a refusal to go it alone. Others have suggested the miners thought they were coming out a few weeks later anyway. Whatever the reason, because of the February debacle, an unprecedented campaign of "education" was mounted this time at pithead meetings of every shift to secure the anti-closure mandate for the conference.

Mr. Williams says events too are strengthening his case. His men have been shocked at the feasibility of the Coal Board to replace more than 50 per cent of the Tymawr Lewis Merthyr miners at other pits.

That said, the Welsh miners clearly need the support of the conference, if they are to sustain their militant stance against pit closures.

Although the Welsh coalfield is most affected, the contraction of the steel industry and increased cheap coal imports from the U.S., Australia and South Africa also threaten to take their toll of pits in other coalfields, particularly now that the Government has decided in the new Coal Bill to phase out production subsidies by 1983.

Arthur Scargill's statement that 50 pits are in danger has never been really repudiated, Mr. Williams adds.

When the crunch will come, however, is still uncertain. Tymawr Lewis Merthyr colliery is being investigated by two mining engineers representing the two sides of the industry to see if productivity can be improved — a compromise formula put forward by Mr. Joe Gormley, the NUM president.

In the meantime, the review of 11 other pits is hanging fire. Indeed, manoeuvring by the NUM, the NCB and, behind the scenes, the Government, could continue for many months.

But it is difficult to see how in the long run a confrontation will be avoided. The Welsh miners simply feel they have their backs to the wall and are ready to fight.



LEVERAGED CAPITAL HOLDINGS N.V.

Curaçao, Netherlands Antilles

Notice of Annual General Meeting of Shareholders

Notice is hereby given that an Annual General Meeting of Shareholders of Leveraged Capital Holdings N.V. has been called by the Manager, Intimis Management Company N.V.

The Meeting will take place at the offices of the Company, John B. Gorsiraweg 6, Curaçao, Netherlands Antilles on 28th July, 1980 at 10.00 a.m.

The Agenda contains a proposal recommended by the Supervisory Board, and Article IV sub 1 of the Articles of Incorporation of the Company in such a way that the authorized capital of the Company is raised from US \$ 750,000.- to US \$ 1,500,000.- The full Agenda, the Annual Report for 1979 and further details may be obtained from the offices of the Company or from Paying Agent mentioned hereunder.

Shareholders will be admitted to the meeting on presentation of their certificates or of vouchers, which may be obtained from the Paying Agent against delivery of certificates on or before 21st July, 1980.

Willemstad, 7th July, 1980

INTIMIS MANAGEMENT COMPANY N.V.

Paying Agent
Pierson, Holding & Pierson N.V.
Herengracht 214
Amsterdam

Standard Chartered

announce that on and after 7th July, 1980

its Base Rate for lending is being decreased from 17% per annum to 16% per annum

The interest rate payable on deposit accounts subject to seven days notice of withdrawal will be decreased from 15 per cent to 14 per cent per annum.

Standard Chartered Bank Limited

TENDERS MUST BE LODGED NOT LATER THAN 10.00 A.M. ON WEDNESDAY, 9TH JULY 1980 AT THE BANK OF ENGLAND, NEW ISSUES, WATLING STREET, LONDON EC4M 9AA OR NOT LATER THAN 3.30 P.M. ON TUESDAY, 8TH JULY 1980 AT ANY OF THE BRANCHES OF THE BANK OF ENGLAND OR AT THE GLASGOW AGENCY OF THE BANK OF ENGLAND. TENDERS MUST BE IN SEALED ENVELOPES MARKED "TREASURY TENDER."

ISSUE OF £1,000,000,000

12 per cent TREASURY STOCK, 1987

MINIMUM TENDER PRICE £96.00 PER CENT

PAYABLE AS FOLLOWS:

| | |
|--------------------------------|---------------------------|
| Deposit with tender | £20.00 per cent |
| On Friday, 15th August 1980 | £30.00 per cent |
| On Friday, 12th September 1980 | Balance of purchase money |

INTEREST PAYABLE HALF-YEARLY ON 3RD MAY AND 3RD NOVEMBER

This Stock is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961. Application has been made to the Council of the Stock Exchange for the Stock to be admitted to the Official List.

THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to receive tenders for £800,000,000 of the above Stock; the balance of £200,000,000 has been reserved for the National Debt Commissioners for public funds under their management.

The principal of and interest on the Stock will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom. The Stock will be repaid at par on 3rd November, 1987.

The Stock will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable, in multiples of one new penny, by instrument in writing in accordance with the Stock Transfer Act 1953. Transfers will be free of stamp duty.

Interest will be payable half-yearly on 3rd May and 3rd November. Income tax will be deducted from payments of more than 25 per cent. Interest warrants will be transmitted by post. The first payment will be made on 3rd November 1980 at the rate of £2.4425 per £100 of the Stock.

Tenders must be lodged not later than 10.00 a.m. on Wednesday, 9th July 1980 at the Bank of England, New Issues, Watling Street, London, EC4M 9AA or not later than 3.30 p.m. on Tuesday, 8th July 1980 at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England. Each tender must be for one amount and at one price. The minimum price, below which tenders will not be accepted, is £96.00 per cent. Tenders must be made at the minimum price or at higher prices which are multiples of 25p. Tenders lodged without a price being stated will be deemed to have been made at the minimum price.

A separate cheque representing a deposit of £20.00 per cent of the nominal amount tendered for must accompany each tender; cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man. Tenders must be in sealed envelopes marked "Treasury Tender."

Tenders must be for a minimum of £100 Stock and for multiples of Stock as follows:

| Amount of Stock tendered for | Multiple |
|------------------------------|----------|
| £100-£2,000 | £100 |
| £2,000-£5,000 | £500 |
| £5,000-£20,000 | £1,000 |
| £20,000-£100,000 | £5,000 |
| £100,000 or greater | £10,000 |

Her Majesty's Treasury reserve the right to reject any tender or to allot a less amount than that tendered for. If undersubscribed, the Stock will be allotted at the minimum price, the balance of Stock not tendered for being allotted at the minimum price to the Governor and Company of the Bank of England, Issue Department. If oversubscribed, all allotments will be made at the lowest price at which any tender is accepted (the allotment price), and tenders accepted at prices above the allotment price will be allotted in full.

Letters of allotment in respect of Stock allotted, being the only form in which the Stock may be transferred prior to registration, will be despatched by post at the risk of the tenderer, but the despatch of any letter of allotment, and any refund of the balance of the amount paid as deposit, may at the discretion of the Bank of England be withheld until the tenderer's cheque has been paid. In the event of such withholding, the tenderer will be notified by letter by the Bank of England of the acceptance of his tender and of the amount of the Stock allotted to him, subject in each case to payment of his cheque, but such notification will confer no right on the tenderer to transfer the Stock so allotted.

No allotment will be made for a less amount than £100 Stock, in the event of partial allotment, the balance of the amount paid as deposit will, when returned, be retained by cheque deposited by post at the risk of the tenderer; if no allotment is made, the amount paid as deposit will be returned if-when. Payment in full may be made at any time after allotment but no discount will be allowed on such payment. Interest at the rate of 1 per cent per annum over the Bank of England's Minimum Lending Rate on a day-to-day basis may be charged on any overdue amount which may be accepted. Default in due payment of any amount in respect of the Stock will render the allotment of such Stock liable to cancellation and any amount previously paid liable to forfeiture.

Letters of allotment may be split into denominations of multiples of £100 on written request received by the Bank of England, New Issues, Watling Street, London, EC4M 9AA, or by any of the Branches of the Bank of England, on any date not later than 10th September 1980. Such requests must be signed and must be accompanied by the letters of allotment (but a letter cannot be split if any instalment payment is overdue).

Letters of allotment must be surrendered for registration, accompanied by a completed registration form, when the balance of the purchase money is paid, unless payment in full has been made before the due date, in which case they must be surrendered for registration not later than 12th September 1980.

Tender forms and copies of this prospectus may be obtained at the Bank of England, New Issues, Watling Street, London, EC4M 9AA, or at any of the Branches of the Bank of England, or at the Glasgow Agency of the Bank of England, at the Bank of Ireland, P.O. Box 15, Doreville Place, Belfast, BT1 5BX; at Mullens and Co., 15, Moorgate, London, EC2R 6AN; or at any office of The Stock Exchange in the United Kingdom.

LONDON
4th July 1980.

THIS FORM MAY BE USED
TENDER FORM

This form must be lodged not later than 10.00 a.m. on Wednesday, 9th July 1980 at the Bank of England, New Issues, Watling Street, London, EC4M 9AA or not later than 3.30 p.m. on Tuesday, 8th July 1980 at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England. Tenders must be in sealed envelopes marked "Treasury Tender."

ISSUE OF £1,000,000,000

12 per cent TREASURY STOCK, 1987

MINIMUM TENDER PRICE £96.00 PER CENT

TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND
I/We tender in accordance with the terms of the prospectus dated 4th July 1980 as follows:

Amount of above-mentioned stock tendered for, being a minimum of £100 and in a multiple as follows:

| Amount of Stock tendered for | Multiple | NOMINAL AMOUNT OF STOCK |
|------------------------------|----------|-------------------------|
| £100-£2,000 | £100 | |
| £2,000-£5,000 | £500 | |
| £5,000-£20,000 | £1,000 | |
| £20,000-£100,000 | £5,000 | |
| £100,000 or greater | £10,000 | |

The price tendered per £100 Stock, being a multiple of 25p and not less than the minimum tender price of £96.00—

AMOUNT OF DEPOSIT (£)

Amount of deposit enclosed, being £20.00 per cent of the nominal amount of Stock tendered for:—

I/We hereby engage to pay the instalments as they shall become due on any allotment that may be made in respect of this tender, as provided by the said prospectus.

I/We request that any letter of allotment in respect of Stock allotted to me/us be sent by post at my/our risk to me/us at the address shown below.

July 1980 SIGNATURE of, or on behalf of, tenderer

PLEASE USE BLOCK LETTERS

| | | |
|-------------|---------------------|---------|
| MR/MRS/MISS | FORENAME(S) IN FULL | SURNAME |
|-------------|---------------------|---------|

| | | |
|----------------------|--|--|
| FULL POSTAL ADDRESS— | | |
|----------------------|--|--|

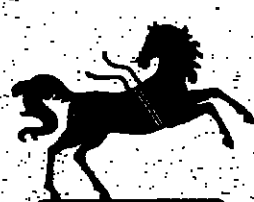
| | | |
|-----------|--------|----------|
| POST-TOWN | COUNTY | POSTCODE |
|-----------|--------|----------|

FT

(a) The price tendered must be a multiple of 25p and not less than the minimum tender price. If no price is stated, the tenderer will be deemed to have made at the minimum tender price. Each tender must be for one amount and at one price.

(b) A separate cheque must accompany each tender. Cheques should be made payable to "Bank of England" and crossed "Treasury Stock". Cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man.

STAMP OF LODGING AGENT (IF ANY)



Lloyds Bank

Interest Rates

Lloyds Bank Limited has reduced its Base Rate from 17% to 16% p.a. with effect from Monday 7th July 1980.

The rate of interest on 7-day-notice Deposit accounts and Savings Bank accounts is reduced from 15% to 14% p.a.

The change in Base Rate and Deposit account interest will also be applied from the same date by the United Kingdom branches of

Lloyds Bank International Limited
The National Bank of New Zealand Limited
and by
Lewis's Bank Limited

Lloyds Bank Limited

BANK OF SCOTLAND

Base Rate

The Bank of Scotland intimates that, as from 7th July, 1980 and until further notice, its Base Rate will be decreased from 17% per annum to 16% per annum.

LONDON OFFICES—DEPOSITS

The rate of interest on sums lodged for a minimum period of 7 days will be 14% also, with effect from 7th July 1980

FT Monthly Survey of Business Opinion

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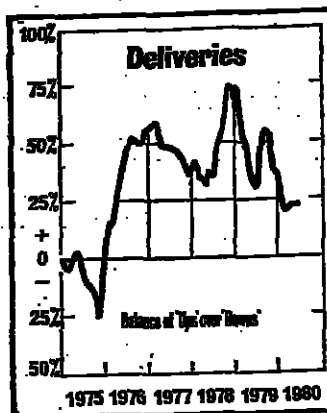
GENERAL OUTLOOK

Confidence drops again

The general level of confidence in industry fell again in June after two successive months in which companies had declared themselves more optimistic. The index registering the overall tenor of business opinion thus came down again to near the very low levels reached at the end of 1979.

The three groups of companies interviewed for the June survey — engineering (non-electrical), chemical and oil companies and the shipping and transport sector — all said they were less optimistic than they had been when last surveyed in February.

The onset of recession, a drop



in order levels, high interest rates and the strong pound featured among industry's main list of complaints. One respondent in the chemicals and oil group said the situation was as bad as it had been at any time since he started in business 32 years ago.

However, there was rather more optimism in the shipping sector, partly on anticipation of refractionary measures in the U.S. The index of optimism over the UK economy also showed a fall after two successive increases. This was mainly because of depressed confidence in engineering and shipping and transport.

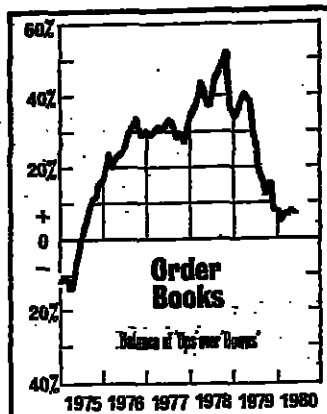
ORDERS AND OUTPUT

Further drop in orders

Industry appears to have been hit by a further drop in orders received last month. The new orders index, which was already at a severely depressed level, fell again. There was little change in the indices covering recent deliveries and the level of order books, which had also shown a significant slump in recent months.

The engineering sector reported a particularly depressed orders position. De-stocking by customers as well as a fall-off in capital investment have both contributed to a drop in demand.

All three sectors expected smaller increases in output over the next 12 months than they



had done in February.

The engineering company said it was unable to forecast order-book levels as the rate of dropped orders by customers was "chaotic".

In the chemical sector, the uncertain exchange rate was said to be particularly affecting pharmaceutical companies.

Somewhat against the generally pessimistic trend, all three sectors expected the value of exports to increase during the next 12 months. Although the strong pound was still affecting overseas sales, several companies thought the UK recession might allow more promising markets to be explored in Europe and elsewhere.

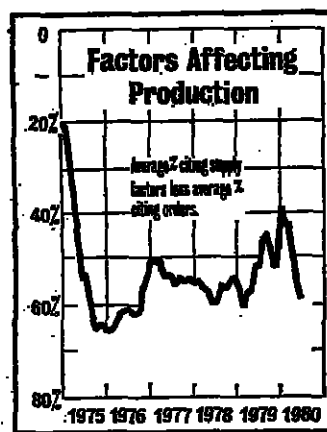
CAPACITY AND STOCKS

Companies working below target

More than half the companies interviewed in the chemicals/oil and shipping/transport sectors reported that they were working below target capacity.

Nearly half the firms in the engineering sector also gave this answer. As a result, the index of the percentage of companies working at planned output levels or above has started to fall after holding up quite well during the past few months.

More companies reported that their stock levels were



generally too high. This was felt particularly by the chemicals and oils sector.

The general response was, however, that levels of stocks of raw materials and components and manufactured goods would probably increase over the next 12 months. The volume of work in progress was expected to remain unaltered.

Among factors affecting production, all three sectors reported that output was being hit by a shortage of home orders. There was a reduction in the percentage saying that output was affected by shortages of skilled factory staff.

CAPACITY WORKING

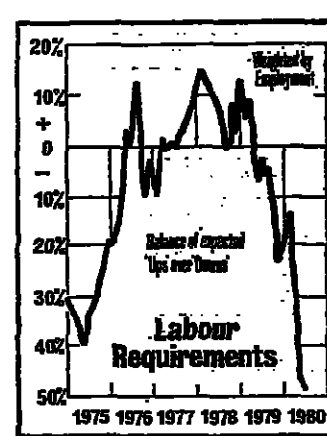
| 4 monthly moving total | | | | June 1980 | | | |
|------------------------|----------|-----------|-----------|------------------|--------------|----------------------|----|
| Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport | % |
| Above target capacity | 6 | 6 | 7 | 9 | 34 | — | — |
| Planned output | 62 | 68 | 66 | 63 | 20 | 39 | 24 |
| Below target capacity | 31 | 25 | 26 | 26 | 46 | 61 | 73 |
| No answer | 1 | 1 | 1 | 2 | — | — | 3 |

INVESTMENT AND LABOUR

More lay-offs expected

Companies expect to shed their workforces further in coming months as a result of the general corporate squeeze and slump in demand. The index registering expected labour requirements dipped again last month following the very sharp fall recorded in May. It has now dropped to some way below the point registered at the trough of the 1975 recession.

The shipping and transport sector was particularly gloomy about the employment outlook. Shortages of demand rather



than supply-side factors are now clearly blamed by respondents for the expected need to prune their labour forces.

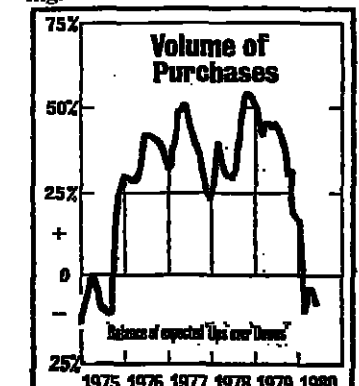
The index covering the outlook for capital spending recovered slightly last month following the rise in May. Chemicals and oils were more restrained than the other two sectors about investment prospects.

As far as capital requirements are concerned, companies reported slightly more use of various types of outside finance such as overseas borrowing, acceptance credits and term loans.

COST AND PROFIT MARGINS

Inflationary pressures build up

Inflationary pressures on industry appear to be building up again after several months in which cost and price increases had appeared to be moderating.

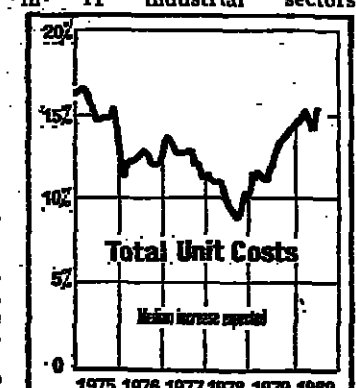


months, with the median expected figure working out at 151 per cent. At the same time, the level of forecast cost increases rose to its highest point since January, 1978, with the median rise over the next 12 months put at 151 per cent.

The median expected rise in wages was unchanged at around 171 per cent. But all three sectors felt that other costs would rise more steeply.

The index measuring projected profit margins fell back for the second month running. These surveys, which are carried out for the Financial Times by the Taylor Nelson Group, are based upon extensive interviews with top executives.

Three sectors and some 30 companies are covered in turn every month. They are drawn from a sample based upon the FT Actuaries' Index, which accounts for about 80 per cent of all public companies.



(mechanical engineering is surveyed every second month). Complete tables can be purchased from Taylor Nelson and Associates.

GENERAL BUSINESS

Are you more or less optimistic about your company's prospects than you were four months ago?

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|-----------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| More optimistic | 23 | 25 | 24 | 18 | — | 5 | 27 |
| Neutral | 35 | 37 | 34 | 34 | 24 | 21 | 37 |
| Less optimistic | 42 | 38 | 42 | 48 | 76 | 74 | 36 |

EXPORT PROSPECTS (Weighted by exports)

| 4 monthly moving total | | | | June 1980 | | | |
|--|----------|-----------|-----------|------------------|--------------|----------------------|----|
| Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport | % |
| Over the next 12 months exports will be: | | | | | | | |
| Higher | 49 | 45 | 49 | 47 | 36 | 62 | 51 |
| Same | 18 | 21 | 22 | 29 | 34 | 17 | 1 |
| Lower | 30 | 32 | 27 | 22 | 22 | 21 | 48 |
| Don't know | 3 | 2 | 2 | 2 | 8 | — | — |

NEW ORDERS

The trend of new orders in the last 4 months was:

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|-----------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Up | 32 | 36 | 34 | 35 | 6 | 29 | 49 |
| Same | 18 | 20 | 21 | 19 | 28 | — | 24 |
| Down | 20 | 19 | 17 | 15 | 52 | 31 | — |
| No answer | 30 | 25 | 28 | 31 | 14 | 40 | 27 |

PRODUCTION/SALES TURNOVER

Those expecting production/sales turnover in the next 12 months to:

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|----------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Rise over 20% | 3 | 3 | 6 | 6 | — | 3 | — |
| Rise 15-19% | 4 | 7 | 6 | 5 | 6 | — | — |
| Rise 10-14% | 4 | 5 | 11 | 14 | — | — | — |
| Rise 5-9% | 21 | 21 | 22 | 20 | 1 | 14 | 15 |
| About the same | 57 | 54 | 47 | 46 | 62 | 65 | 73 |
| Fall 5-9% | 1 | 1 | 1 | 0 | — | — | — |
| Fall over 10% | 3 | 1 | 1 | 1 | 28 | — | — |
| No comment | 7 | 6 | 6 | 8 | 3 | 18 | 12 |
| Median change | 3.6 | 4.2 | 4.8 | 4.9 | 0.8 | 1.6 | 3.5 |

STOCKS

Raw materials and components over the next 12 months will:

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|---------------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Increase | 31 | 34 | 29 | 22 | — | 19 | 12 |
| Stay about the same | 40 | 36 | 33 | 35 | 37 | 53 | 61 |
| Decrease | 25 | 23 | 29 | 31 | 63 | 28 | 24 |
| No comment | 4 | 7 | 9 | 12 | — | — | 3 |

Manufactured goods over the next 12 months will:

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|---------------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Increase | 19 | 22 | 19 | 18 | — | 9 | 24 |
| Stay about the same | 46 | 45 | 40 | 36 | 42 | 58 | 37 |
| Decrease | 19 | 18 | 21 | 22 | — | 30 | — |
| No comment | 16 | 15 | 20 | 24 | 58 | 3 | 39 |

FACTORS CURRENTLY AFFECTING PRODUCTION

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|-----------------------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Home orders | 85 | 80 | 76 | 73 | 94 | 97 | 100 |
| Export orders | 48 | 50 | 44 | 43 | 80 | 60 | 73 |
| Executive staff | 9 | 9 | 12 | 11 | — | — | — |
| Skilled factory staff | 15 | 19 | 24 | 27 | 31 | 3 | 12 |
| Manual labour | 0 | 2 | 4 | 5 | 3 | — | — |
| Components | 1 | 6 | 11 | 11 | — | — | — |
| Raw materials | 15 | 19 | 19 | 17 | — | — | 24 |
| Production capacity (plant) | 9 | 11 | 11 | 12 | 17 | 1 | 49 |
| Finance | 1 | 2 | 2 | 2 | — | — | — |
| Others | 8 | 11 | 12 | 12 | — | 14 | — |
| Labour disputes | 16 | 26 | 32 | 35 | — | 3 | — |
| No answer/no factor | 8 | 8 | 7 | 2 | 6 | — | — |

LABOUR REQUIREMENTS (Weighted by employment)

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|--|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Those expecting their labour force over the next 12 months to: | | | | | | | |
| Increase | 6 | 6 | 15 | 16 | 6 | 5 | — |
| Stay about the same | 36 | 35 | 36 | 37 | 56 | 39 | 32 |
| Decrease | 55 | 53 | 43 | 41 | 38 | 56 | 68 |
| No comment | 3 | 6 | 6 | 6 | — | — | — |

CAPITAL INVESTMENT (Weighted by capital expenditure)

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|---|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Those expecting capital expenditure over the next 12 months to: | | | | | | | |
| Increase in volume | 31 | 30 | 26 | 28 | 13 | 51 | 7 |
| Increase in value but not in volume | 18 | 22 | 19 | 15 | 6 | 31 | — |
| Stay about the same | 16 | 14 | 12 | 12 | 50 | 17 | — |
| Decrease | 34 | 32 | 36 | 33 | 31 | 1 | 93 |
| No comment | 1 | 2 | 7 | 12 | — | — | — |

COSTS

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|--------------------|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Wages rise by: | | | | | | | |
| 10-14% | 13 | 11 | 13 | 17 | 21 | 44 | — |
| 15-19% | 66 | 68 | 64 | 54 | 55 | 37 | 73 |
| 20-24% | 15 | 13 | 14 | 14 | 23 | 16 | 24 |
| No answer | 6 | 8 | 9 | 11 | 1 | 3 | 3 |
| Unit cost rise by: | | | | | | | |
| 0-4% | 4 | 4 | 5 | 5 | — | — | — |
| 5-9% | 4 | 5 | 6 | 3 | — | — | — |
| 10-14% | 30 | 37 | 30 | 31 | 7 | 16 | — |
| 15-19% | 42 | 32 | 30 | 37 | 67 | 73 | 98 |
| 20-24% | 5 | 4 | 7 | 9 | 20 | — | — |
| 25-29% | 0 | — | — | — | — | 1 | — |
| No answer | 15 | 18 | 22 | 21 | 6 | 10 | 2 |

PROFIT MARGINS

| | Mar. June | Feb. May | Jan. Apr. | Dec. Mar. | Eng. (non-elec.) | Chem. & Oils | Shipping & Transport |
|--|-----------|----------|-----------|-----------|------------------|--------------|----------------------|
| Those expecting profit margins over the next 12 months to: | | | | | | | |
| Improve | 42 | 43 | 46 | 36 | 28 | 26 | 3 |
| Remain the same | 27 | 28 | 27 | 34 | 42 | 6 | 73 |
| Contract | 28 | 25 | 23 | 26 | 30 | 58 | — |
| No comment | 3 | 4 | 4 | 4 | — | — | 24 |

APPOINTMENTS

Simon Engineering Board post for Sir Leslie Murphy

Sir Leslie Murphy has been appointed to the Board of SIMON ENGINEERING, a non-executive director. Sir Leslie was chairman of the National Enterprise Board from 1977-79.

Mr. P. E. Gough, production manager, and Mr. J. C. Jardine, sales manager, have been appointed directors of BORDER BREWERIES (WREXHAM). Mr. Christopher F. Huntley has retired as a director.

Mr. Norman J. Smith has been appointed chairman of BRITISH UNDERWATER ENGINEERING, succeeding Mr. John Spiers who remains on the Board as non-executive director. Mr. August Keadrick has been made managing director in place of Mr. David Sadler and Mr. Alan C. Milton becomes technical director.

BARING BROTHERS ASIA has made the following changes: Mr. A. E. L. Tuckey has taken over as chairman from Mr. N. H. Baring, who remains on the Board. Mr. P. G. R. Boddas has succeeded Mr. J. Fawthrop as banking director and Mr. J. E. C. A. Kirby as corporate finance director, both resident in Hong Kong. Mr. A. M. Smith, at present resident in Malaysia, has been appointed director. Mr. J. Fawthrop and Mr. C. L. A. Kirby have returned to Baring Brothers in London.

Mr. E. R. Ancock, aviation underwriter and Mr. C. E. F. For non-proportional re-insurance underwriter, have been appointed to the Board of ROBERT BRADFORD AND CO. (AGENCIES) the underwriting management subsidiary of Minister Insurance Company.

Sir Edward Singleton has become chairman and Mr. John Swaborn, group managing director of the SOLICITORS LAW STATIONERY SOCIETY. Mr. R. A. Hodges is to resign as chairman and group managing director.

Dr. Trevor Lamb has been appointed a non-executive director of W. CANNING Since 1974 he has been a director of IMI with responsibility for overseas and marketing. He is also chairman of the IMI Value and Australian Groups.

The BANK OF ENGLAND states that Mr. R. J. Chifford, at present an adviser on development and export finance within the territorial division, will succeed Mr. D. A. C. Wendick as agent at the Birmingham branch from September 1. Mr. Wendick will be returning to London to work in the new regional structure and institutions division.

Mr. E. J. Taylor has been appointed assistant managing director of BLOCKLEY following the retirement of Mr. A. J. Jones. Mr. J. W. H. Sheppard has been made a director.

Mr. Alan G. Smith has been appointed deputy chairman of PERCY BARON and Associates as joint managing director.

Mr. Trevor Mawby, company secretary, has been appointed to the board of WALTER LAWRENCE. Mr. Donald Mawby has also joined the board as a non-executive director. Mr. Rodney Martin, previously deputy group managing director, has been made group managing director.

Mr. A. C. Lindman has become financial director and company secretary, and Mr. J. E. Steinberg and Mr. N. A. Steinberg, directors of STONEHILL HOLDINGS.

INSURANCE

The lengthening tail of potential liability

BY OUR INSURANCE CORRESPONDENT

THE TAIL of potential liability grows even longer with the development of medical research, the increase in compensation-consciousness and the relaxation of the time rules for making legal claims.

In recent years the courts have had to deal with a growing number of compensation claims for industrial dermatitis, pneumoconiosis, deafness and cancer arising from previous decades. Some claims had their origins in wartime processes and conditions.

For employers, their lawyers and insurers there is a constant flow of judicial comment, but still a high degree of uncertainty.

The employer faced with a claim from a sometime employee, arising, say, out of working conditions in the early 1960s, cannot turn to his present employer's liability insurers and ask for protection.

Almost without exception, insurers provide cover in terms such as these: "The company will indemnify the policyholder in respect of all sums which he will become legally liable to pay as compensation for bodily injury (including disease) sustained out of and in the course of his employment by an employee during the period of indemnity."

Cover exists only for injury sustained or disease contracted during the year of insurance. When the employer gets a claim relative to the early 1960s, he must turn to his records, and

out who his insurers were and ask them to handle the claim. If his records have been lost or destroyed, he may not be able to pass the claim on to any insurer. Then he may have to handle and pay the claim himself, if he is held to be liable.

There is a further legal complication. Under normal limitation periods applicable to contracts, the 1960s insurer is seemingly entitled to say to the sometime policyholder that any claim notified more than six years from his policy's expiry date is a claim made out of time and not acceptable.

In practice, however, insurers seem to accept old claims where the employer can prove he had insurance. Employer's liability insurers are now being asked to add retrospective insurance to their events occurrence policies.

Arguably, any risk is insurable at a price. But the price for providing retrospective cover must be high, even where the employer has not been involved in any hazardous process known so far to be productive of a volume of long tail claims, and has a good claims record in current terms. Who knows what new causes of compensation claim can be discovered?

Market comments make it clear that retrospective cover must be hard to come by, obtainable only after in-depth information to insurers on past processes and claims experience, and over much longer than normally required as the background for providing liability cover.

| BASE LENDING RATES | | | |
|------------------------|-----|--------------------------|-----|
| A.B.N. Bank | 18% | Hambros Bank | 16% |
| Allied Irish Bank | 17% | Hill Samuel | 17% |
| American Express Bank | 17% | C. Hoare & Co. | 17% |
| Amro Bank | 17% | Hongkong & Shanghai | 16% |
| Henry Ansbacher | 15% | Industrial Bank of Japan | 16% |
| A.P. Bank Ltd. | 18% | Keyser Ullmann | 17% |
| Arbuthnot Latham | 17% | Knowles & Co. Ltd. | 16% |
| Associates Cap. Corp. | 17% | Langris Trust Ltd. | 17% |
| Barclays Bank | 17% | Lloyds Bank | 16% |
| Bank of Bilbao | 17% | Edward Mawson & Co. | 17% |
| Bank Credit & Commerce | 17% | Midland Bank | 16% |
| Bank of Cyprus | 17% | Samuel Montagu | 16% |
| Bank of N.S.W. | 17% | Morgan Grenfell | 16 |

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

SHIPPING

Dredger will also collect oil

DUE TO be launched at IHC's Smit Yard at Kinderdijk, Holland, on July 11, the company's latest dredger, the *Cosmos*, has been designed also to act as an oil-recovery vessel. The company says that when the vessel is used for harbour maintenance it operates as an ordinary trailing suction hopper dredger, but when on oil recovery duty it extends two "sweeping arms". During oil skimming a forward speed of up to 2 knots is maintained to clear of 50 metres width. It is claimed that about 180,000 square metres of sea surface an hour can be cleaned. Surface oil caught by the booms is guided by collector blades to hydraulically-operated pumps which have a capacity of 1,000 cubic metres of oil/water mixture per hour. The mixture is pumped through flexible hoses to the vessel's 5,375 cubic metre hopper and to additional storage tanks holding 960 cubic metres. Time for mobilisation of the vessel for oil recovery is negligible, says IHC, as the crew is already on board and the recovery equipment installed. If dredging, the vessel can dump its load and head for the oil spill area, where it can operate at wave heights of 1.5 metres. The combined maintenance dredger and oil recovery vessel is 113.6 metres long, has a beam of 26 metres and top speed of 13.7 knots. It will be owned by *Cosmos Dredging v.o.f.* of Hook of Holland which in turn is owned by Holland Dredging Company, Royal Bos Kalis Westminster Group NV and Royal Volker Stevin NV.

IN THE OFFICE

Lettering machine

ENGINEERS AND architects in the UK are offered an inexpensive, desk-top lettering machine (supplied in electric or manual form) which produces "type on tape" in a wide range of type-faces and sizes. Untrained personnel can easily and speedily effect permanent drycarbon lettering in a choice of colours on self-adhesive opaque, transparent or special-diaz translucent tape, says maker Kroy Industries, PO Box 43716, St. Paul, Minnesota 55164, USA. The user rotates the typewriter on the KroyType 80 to obtain the required letter or symbol, then pushes a button. Proportional letter spacing is automatic and adjustable. Push of a second button releases the word or line and the operator then has only to remove the backing and press the tape into position on the engineering or design drawing.

INSTRUMENTS

Easy way to freeze motion

FIBRE STROBE is a cold-light unit from Edward Fletcher and Partners which delivers a powerful beam through its flexible fibre-optic light-guide and also has strobe facilities. One output connection gives steady quartz halogen light, and the other (fed from a second quartz halogen source) is strobed at variable frequency. This means that rotating and reciprocating mechanisms can be observed—even in the most inaccessible places—in "frozen" motion. Speeds from 500 to 5800 strobe flashes a minute are accommodated by the standard fibre strobe, but the range 1000 to 11200 is available to special order. EFP can also supply an l.e.d./photocell trigger that will keep the lamp frequency locked on to mechanisms of varying speed. Lamp life can be extended to as much as 2500 hours by under-running, making use of a solid-state control that gives a continuously variable light output down to 30 per cent. The lamps themselves are rated at 150 watts, 15 volts, are fitted with integral dichroic mirrors, and cooled by silent-running ducted centrifugal blowers. The two light-guide connectors on the unit front panel are standard ACMF female types with spring-loaded slide action. When not in use they are blanked off by automatic anti-dazzle shutters. Total electrical consumption of the unit is about 230 VA, from an input that may be 110 V 60 Hz or 230 V 50 Hz. Measuring 225 mm by 215 mm by 145 mm (8.8 by 8.4 by 5.7 in.), the fibre strobe cold-light unit weighs 4.4 kg (9.68 lb). EFP at 25 West Park Road, Kew, Surrey TW9 4DB. 01-876 2204.

SERVICES

Problems with plastics

MINOR MOULDING problems in plastics processing can often quickly be solved by using simple optical microscopy. But those most likely to need to use the technique usually have neither the equipment nor the trained personnel. Recognising that the Science Research Council's Polymer Engineering Directorate is financing the first diagnostic microscopy and teaching service for the plastics and rubber industry, to be set up at the Institute of Polymer Technology, University of Technology, Loughborough. The PED/SRC grant of £25,350 will be spread over four years on a decreasing scale after which the scheme is expected to become self-financing in the form of a consultancy. Courses will play an important part in the service which will also help in identifying areas in development and production where microscopy can be used to improve product design, manufacturing techniques and quality control. SRC, Polymer Engineering Directorate, PO Box 271, 3/5, Charing Cross Road, London WC2H 9HW. 01-930 9162.

COMPONENTS

Withstands high power

CUSTOM-BUILT voltage networks and dividers, that are capable of continually withstanding up to 30 kV, are offered by Welwyn Electric, the Northumberland-based electronic component manufacturer. The new components will be of interest to engineers involved in the design and manufacture of high voltage equipment, particularly very low inductance and pulse systems, precision high voltage dividers, accurate feedback controls, measurement systems and bleeder chains. Networks are supplied on five standard substrate sizes ranging from 25 mm x 8.5 mm to 25 mm x 50 mm. Special size substrates can be made to order. The resistance range available is 100 ohms to 2 Gohms with a standard tolerance of 5 per cent. Closer tolerances are available if required. Power rating is up to 4.5 watts, and stability typically 0.5 per cent after 1,000 hours use. Advantages of a high voltage network over discrete components are: reduced inventory, as several components are replaced by one; reduced assembly and inspection time; and a more consistent performance than can be achieved with discrete resistors, as duplicate networks are identical in pattern, shape and electrical characteristics. Welwyn Electric, Bedlington, Northumberland NE22 7AA. 0870 822181.

MUNICIPAL ENGINEERING

Structures for streets

UNITS MADE of GRP (glass reinforced plastic) that can serve as kiosks, booths, shelters, etc., in car parks, at bus-stops (or as fully enclosed structures where a dust-free atmosphere is required) have been developed by Inwork Craft Products, 21 Faraday Road, Southfield Industrial Estate, Glenrothes, Fife (0592 759293). Local authorities have utilised the modular system as bus shelters, etc., and the maker says that they are virtually vandal-proof and corrosion-free. Said to incorporate the latest resins and colourfast pigments, the structures come in a range of textured finishes to blend in with or contrast with customer scenarios.

Each module promises to be produced under tight quality supervision with particular attention given to inner surface and edge finishing. By agreement between the Financial Times and the BBC, information from The Technical Page is available for use by the Corporation's External Services as source material for its overseas broadcasts.

MATERIALS

Production of optical fibre

A NOTABLE first has been achieved by a GEC company which has made the first lengths of optical fibre produced commercially in the UK by the double crucible method. The double crucible method of manufacture uses a crucible designed to proportion two types of glass at a pre-set core to cladding ratio. It is then covered on-line by a protective, strengthening plastic coat. This process was developed by the British Post Office Research Centre at Martlesham Heath and the sole UK licence to produce was granted to London Electric Wire. In 15 weeks from the date of the original agreement London Electric Wire reached the production stage. During this period the plant was designed, built and commissioned. It is installed in a specially constructed clean environment in order to guarantee purity levels—and thus the highest possible technical standard. Uses for this type of fibre are mainly in the Post Office network systems and the world-wide potential is enormous. Applications include computer links, piped TV systems, the new System X telephone exchanges, military cables and railway signal systems.

Known as Scotch Weather Strip 2743 the material will, it is claimed, reduce air infiltration by over 70 per cent and noise levels by 7.5 dB. This 1 inch wide polypropylene strip is scored down the centre so that on application it can be easily formed in to "V" section. Adhesion to wood or metal, even in cold weather is said to be very good by virtue of new 3M acrylate adhesive which is applied continuously at the factory rather than in interval-space tasks. Adhesion strength is said to exceed 18 oz in 180 degree peel-back tests. Other advantages claimed are good tear and dent resistance, conformability, acoustic insulation and durability. The makers say that test samples have undergone 2.5m opening/closing cycles with no measurable change in performance. 3M United Kingdom is at P.O. Box 1, Bracknell, Berks RG12 1JU (0344 55280).

Strong lettered strapping

WELL KNOWN for its woven nametapes, J. and J. Cash has introduced a range of high strength lettered strapping. This is woven in nylon tyre cord, with polyester lettering, stripes, and logos, which are repeated along the length of the strap. With a breaking strength of over half-a-ton, the straps have a very strong resistance to abrasion, and all colours are fast dyed. A range of nine colours is available where the lettering, etc. is concerned, while the body of the strap as such is dyed to meet particular requirements. The maximum width available is 38 mm in infinite lengths. A variety of buckles, slide attachments etc. are available. The strapping is so woven that the lettering will not catch or snag, and there is no "float" of loose yarn on the reverse of the strap. It should appeal to tour operators needing constant identification of their customers' holiday impedimenta and it could be useful for carrying portable industrial equipment, which needs to be held securely and readily recognised. J. and J. Cash is in Kingfield Road, Coventry CV1 4DU. (0203 553222.)

Increases resistance to frost

INCREASED workability and resistance to damage by frost and de-icing salts are among the advantages claimed for Conplast AE 21, a water-reducing air-entraining admixture for concrete now being marketed by Fosroc Construction Chemicals, Vimy Road, off Leighton Road, Leighton Buzzard, Beds LU7 7LF. (0525 373773). The product is stated to be suitable for roadways, bridges, runways and any large concrete area where damage by frost is likely, or where poor aggregates or sand gradings have to be used. It can also be used with air-entrained structural concrete or extruded concrete. Described as a chloride-free, liquid admixture that is compatible with all types of Portland cement, Conplast AE 21 entrains a controlled volume of air into the mix while its plasticising action significantly reduces the free water content. It acts on the interface between the cement/aggregate particles and the mixing water, producing microscopic air bubbles throughout the concrete. Fosroc says that the improved workability increases compaction, while controlled entrainment increases resistance to frost damage and reduces the permeability of the hardened concrete considerably.

COMPUTERS

Control of production

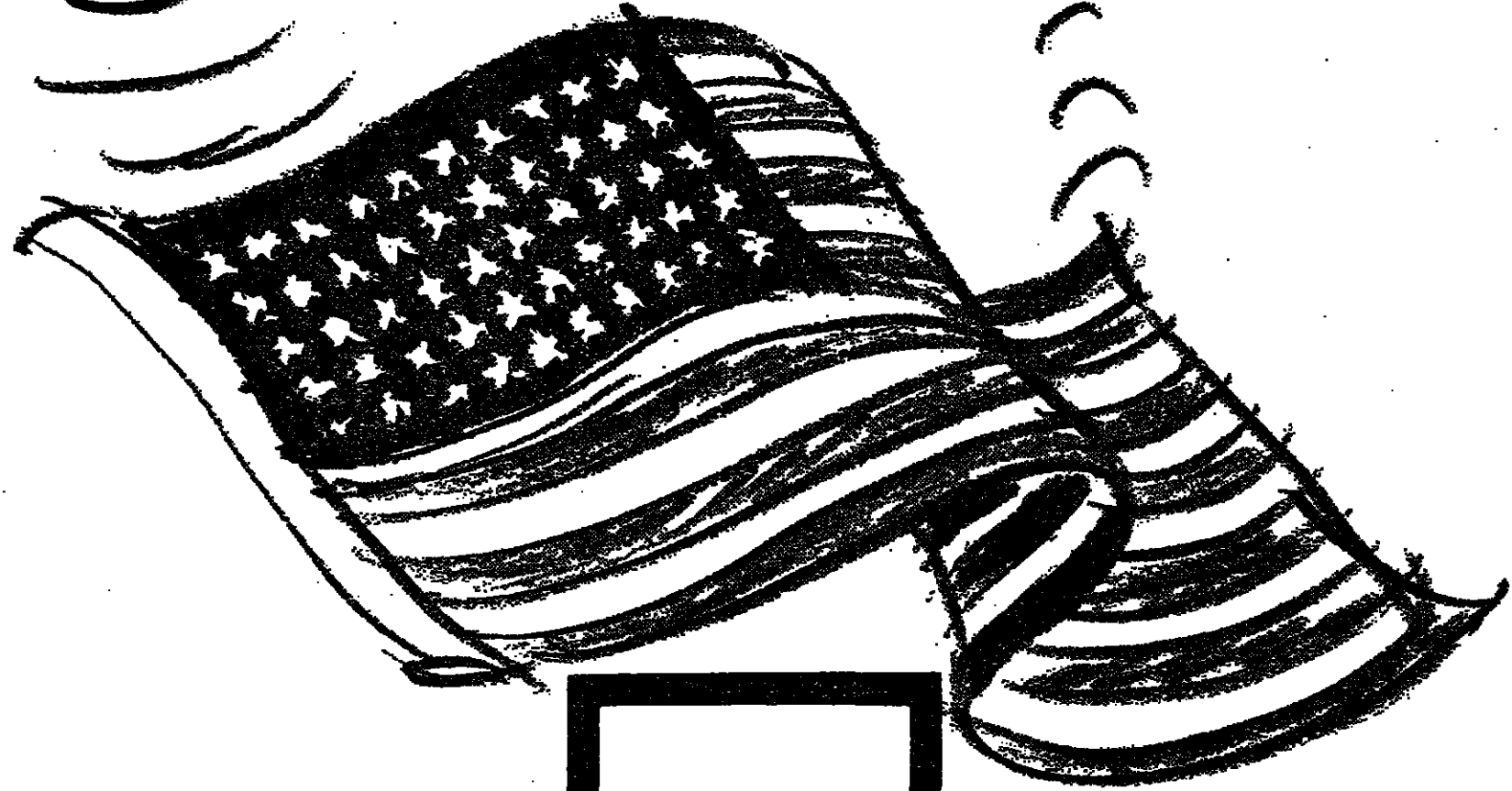
BASED UPON a design for use within a sister company involved in engineering production, a fully fledged microcomputer system for production management in the engineering industry is now to be offered by BMG Microsystems. Part of the £4m turnover Blackman Martin Group, BMG Microsystems is making use of Intel eight bit microprocessors, Honeywell Bull peripherals and the CPM operating system from Digital Research of California now said to be in use in 200,000 installations world wide.

The company believes, however, that its high quality total system design and production control software will put it in a strong position at the upper end of this particular market. System price with hard disc is about £27,000 and the machine is aimed at companies with up to 350 employees. It is emphasised that no specialist knowledge or staff are required and included in the price will be 12 free weeks of support. Production scheduling and cost control are the two prime areas in which the machine provides solutions. The former is designed for a multi-operation multi-work-centre environment. Machine times calculated at the estimating stage are kept within the computer for automatic preparation of daily machine schedules. All jobs and processes, including planned down time and operators' absences can be programmed. Management receives detailed reports on the utilisation of each work centre, material requirements and achievable delivery dates, plus a daily work schedule. The effect of production machine breakdown or personnel absence on the whole program of work, on job progress, delivery dates, workshop loading and several other aspects will be shown up by the computer. The work schedule is automatically adjusted but remains under direct management control. The system also provides the kind of information needed for decisions on when to buy new equipment, when to subcontract work, and the effect of overtime working. Current and future costs of materials, work centres and overheads are accommodated by the costing segment of the software and these can be updated at any time. Outputs include detailed variances against the estimate and a forecast of the profitability of each order from customers. The company is also offering separately the microcomputer plus its peripherals, with operating system, at a starting price of about £8,250. More from the company at Micro House, Hawksworth, Swindon, Wiltshire SN2 1DZ (0793 37813).

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Building and Civil Engineering

£16m paper mill in Tanzania

A PAPER and pulp mill complex in South West Tanzania is to be built by Mowlem under a £16.4m contract. The development, in the highlands at Mafindi, Iringa region, is for the National Development Corporation of Tanzania. It is financed by a consortium including the World Bank, KfW of Frankfurt, Sida of Stockholm, the Kuwait Fund, the OPEC Special Fund, the Commonwealth Development Corporation, the Nordic Investment Bank and the Tanzania Government.

Mowlem's first task on the 51.4 acre site, is to build an estate of 50 houses which will be used by company staff carrying out the construction.

In addition to the mill house, there will be 24 ancillary buildings including offices, laboratories, field storage unit, maintenance shop, fire station,

effluent treatment and water supply works.

Overall project management is by the National Development Corporation of Tanzania, which has retained ASSI of Stockholm as advisers; site project management will be P. R. Sandwell UK of London, with Jankio Poyry Engineering Company of Helsinki, as engineering consultants.

Factory in Egypt

MEMBER OF the John Laing Group, Laing Projects BV, has received a £3.3m management fee contract from Chloride Egypt to build a battery factory with offices and an amenity building at Imbaba, about 35 km from Cairo.

Factory will have a floor area of about 8,000 square metres and will be of structural steel frame construction with metal cladding to roof and walls.

The two storey office building (some 1,100 square metres) will have an in situ concrete frame with blockwork cladding. Single storey amenity building will be of similar construction.

Also included will be sewerage treatment and effluent plant, a water tower, roads and hardstanding for vehicles.

Work begins on September 1 this year and is scheduled for completion within 14 months.

Big Punjab development project

SIR WILLIAM Halcrow and Partners working in collaboration with Sir Murdoch MacDonald and Partners has signed a contract with the Government of Punjab to provide full consultancy services for investigation, planning and implementation of the Kandi Watershed and Area Development Project (KWADP) finance for which the International Development Association is to provide a US\$24m loan, matched by grants from the Government of

Punjab. Services to be provided cover the feasibility, planning and implementation of the KWADP, including technical organisation in all its managerial, financial, social and administrative aspects provision of advice to and assistance with in-service training to strengthen the Department's capacity to investigate, monitor, and evaluate works on small watersheds of varying size, topography, hydrology and degree of vegetative cover of

the type found in the area. Work involved will be the first comprehensive attempt to tackle the problem of the flood damage and soil erosion brought about by generations of unregulated tree felling and overgrazing in the Himalayan sub-mountainous zone, and forms part of the Government of Punjab's strategy to raise agricultural production in the Kandi tract, a 4,600 square km area which contains some 65 per cent of the State's population.

Home & overseas work for George Wimpey

WIDE RANGE of activities covered by George Wimpey group includes three orders won by its Caribbean office for schools, houses and blocks of flats in Trinidad, together worth over £12m.

Trinidad and Tobago Ministry of Education and Culture has placed a £4.4m order for two schools of prefabricated design to be built on reinforced concrete foundations at Claxton Bay and Moruga. For Craven Ramchatesingh, Wimpey is to design and build 68 houses in Freeport, complete with roads

and sewers, under a £1.3m contract. Third order is valued at £6.6m and has been placed by the National Housing Authority of the Government of Trinidad and Tobago. This calls for five four-storey apartment blocks to be built in Morvant by the end of 1981.

In the UK, the Middlesbrough office of Wimpey Construction has won a £6m contract from the Property Services Agency for the erection of a training camp for service personnel at Wathgill Camp, North Yorkshire. Project comprises barrack

blocks, headquarters buildings, stores, training and medical centre, social centre, senior and junior ranks messes, workshops, transport facilities and all associated buildings and services.

In Scotland, a contract worth £3.4m has been won by Wimpey Asphalt for the resurfacing of the RAF Machrihanish runway at Campbeltown. Awarded by the Department of the Environment, PSA, this work comprises the resurfacing of the existing 3,650 metres long x 45 metres wide concrete runway with 100mm two-course Marshall

Asphalt. Work involves making and laying 52,000 tonnes of Marshall base and regulating material and 19,000 tonnes of Marshall wearing course. Runway ends are to be broken out also, and resurfaced with 200mm thick concrete.

A £1.2m plus contract from the Home Office for works at HM Prison, Liverpool, includes construction of a new perimeter security wall in reinforced concrete with piled foundations. A third house and flat modernisation contract with Kirkcaldy District Council is valued at just over £500,000.

£10m awards to Bernard Sunley

THREE contracts worth about £10m have been awarded to Bernard Sunley and Sons.

At Purley, W Surrey, work has started on the demolition of an office and foundry in readiness for the construction of a three-storey factory, for Stewarts' Plastics. The building will have a structural steel frame on piled foundations and be linked at high level to some remaining buildings. The contract valued at about £1.6m is planned for completion in August 1981.

Architects are Grayston, Alan

and Durnall of Sevenoaks, Kent. Baker Wilkins and Smith are the quantity surveyors.

Work has also begun at Nene College, Northampton, on the construction of the Blackwood Lodge Management Centre for Northamptonshire County Council. This contract is valued at over £1m. The architect is J. D. M. Gammans.

The third job is at New Hibernia Wharf, London, SE1, where a £7.1m office and flat development overlooking the Thames is underway for Dyma-

seven storeys of offices and flats in a nine-storey section.

The building will be finished externally with brickwork and anodised glazed panels and curtain walling and the area around the building will be extensively paved to allow access to the riverside and Southwark Cathedral. Completion is scheduled for the end of 1982.

Architects are Michael Twigg, Brown and Partners and Norwell and Partners are the quantity surveyors.

Sewage treatment works

WORK WORTH over £5m has been awarded to companies within the Norwest Holst group including a £3m design and construct contract for a major extension to the existing sewage treatment works at Kendal.

The new works, which incorporate part of the existing works sited alongside the River Kent, will

include an inlet screw pumping station, screen house, covered oxygen activated sludge tanks, final settling tanks and sludge storage tanks. This is the first time since reorganisation that the North West Water Authority has awarded a design and construct contract for a major sewage works extension.

Robert McGregor (Norwest

Holst, company) has been awarded a £2.376m contract by the Severn-Trent Water Authority for building road diversions to by-pass the villages of Carsington and Hogston in Derbyshire, prior to the commencement of work on the proposed Carsington dam and reservoir.

Three contracts for Howard

WORK WILL start shortly on three contracts, totalling over £2m won by John Howard and Co.

The largest contract, valued at nearly £1.5m is at Blackness Harbour, Scalloway, Shetland and involves the construction of

a steel sheet piled finger jetty 240 metres long to provide an overall berthing length of 400 metres.

At Warrington, the company will construct two sludge tanks at Gateworth sewage works and a third at Eastford Road for the

North West Water Authority (£270,000), while the third contract, valued at £285,000 is to provide a new customs and excise pier at Gravesend, Kent, for the Property Services Agency.

£2m sea defence work

TWO contracts for sea defence work have been won by Mears Contractors worth a total of over £2m.

One is for the Southern Water Authority for work to be carried out in Sheerness, Kent, and due to start in August, will entail the improvement of tidal sea defences. Called for are 700 linear metres of sheet pile toe wall, concrete bank facing and associated promenade slabwork and wave return walls.

Also included in the £1.1m contract is the improvement of a secondary defence which runs through the dockyard in a north-south direction from Garrison Point to Rats Bay.

The second contract is for the Metropolitan Borough of Wirral and is a 15 month operation scheduled for completion in October 1981.

Under this £1m contract, (Stage III of the Wallasey Embankment project), Mears is to carry out defence works for a distance of 150 metres. The contract also includes construction of an offshore rubble mound breakwater consisting of 40,000 tonnes of natural rock laid on a base of 20,000 tonnes of smaller bed stone, with 500 tonnes of mastic-grouting.

Nearly £5m contract for Lesser

NEW UK headquarters for Heidelberg Graphic Equipment are to be built at Brentford, Middlesex, by Lesser Design and Build. Value of the contract is understood to be nearly £5m.

The 9130 square metre complex will be erected on a 31-acre site on the south side of Brentford High Street. Preliminary site work has begun.

There is to be a mix of two- and four-storey buildings with a showroom fronting the High Street for displays of Heidelberg printing machines. About 2,500 square metres of office space is to be provided plus storage areas, workshops, conference rooms, catering facilities and a plant and vehicle maintenance depot.

A reinforced concrete frame will be used for the four-storey portion, with steel frames for the remaining structures. Cladding will be mainly of red facing brick, with coloured mortar and blue pvc-coated profiled steel. Completion is due in June 1982.

City in the desert

TRENT CONCRETE has won a £400,000 contract to supply its specialist expertise to architects planning a £1,000m city in the Egyptian desert.

The 1,1th of Ramadan City, as it is already called by the Egyptians, will be the new home of 500,000 people at present living in overcrowded Cairo. It is due to be completed by the end of this century.

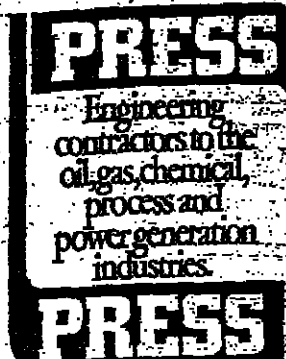
Trent Concrete engineers will be training their Egyptian counterparts in precast concrete construction techniques at their Nottingham offices and also at the site in the desert 30 miles to the north of Cairo.

Water study in Mauritius

OVE ARUP and Partners' Mauritius based practice, Sigma-Arup, has been appointed by the Central Water Authority of Mauritius as consulting engineers for the proposed Port Louis Domestic Water Supply Scheme.

This project includes two dams, the larger being situated in the Gutbies Valley, a tunnel, a small hydro-electric station together with weirs and several kilometres of canals.

A feasibility study for the project is under way and work has also begun on site investigation.



Buildings for port project

THE SUPPLY and erection of 28 buildings for a ten berth port in Um Qasr is to be undertaken under a sub-contract awarded to Cleveland Bridge and Engineering Company by the State Constructional Contracting Company of Iraq.

Cleveland Bridge, a Trafalgar House company, will be fabricating over 10,000 tonnes of steelwork for the project in the UK and at its Isle of Wight works in the United Arab Emirates.

This will be a continuation of the port development work currently being carried out by the company at Khor Al Zubair in Iraq, where it has a contract for the supply and erection of 12,000 tonnes of steelwork worth about U.S.\$1.9m.

Bottling plant

AWARD BY Arthur Bell and Sons of a £550,000 contract for the construction of a 300,000 gallon bottling plant has brought the Cubitts total workload on this site to over £2m.

Under the first phase, new nearing completion, Holland Hansen and Cubitts (Scotland) has built additional bonded warehouse accommodation which, when brought into use, will release space for an additional bottling hall and warehouse.

Blyth and Blyth Associates of Edinburgh are providing all professional services on this contract.

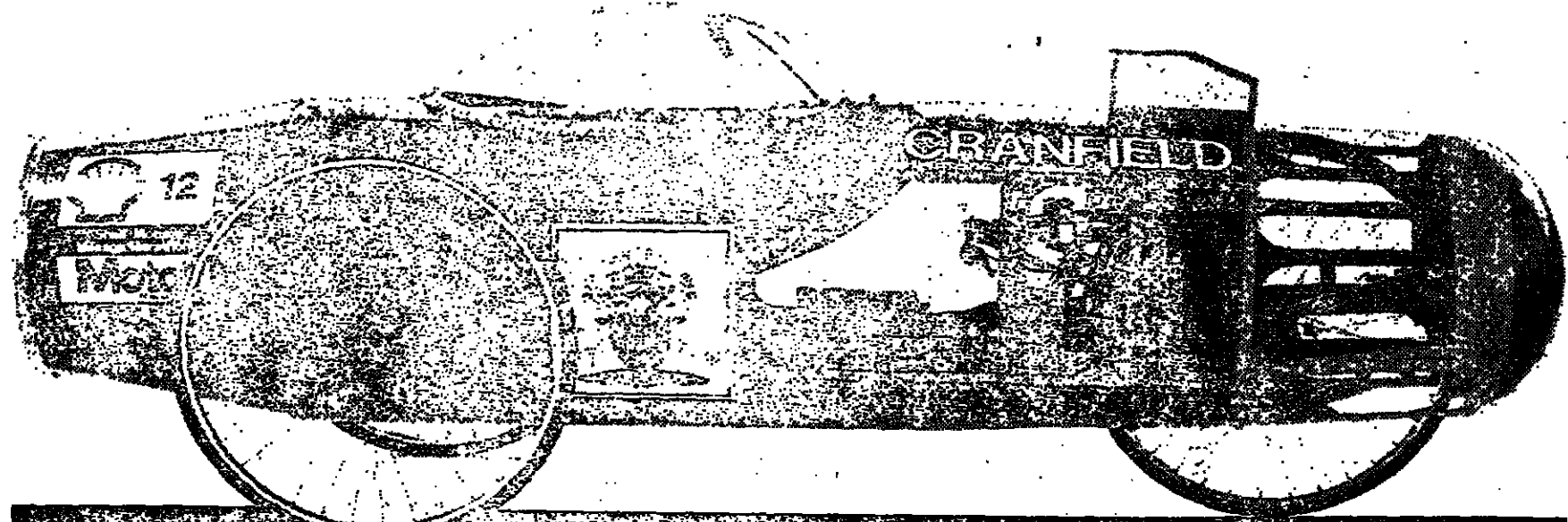
Monk tender accepted

TAYSIDE REGIONAL Council Water Services Department has accepted A. Monk and Co's £1.2m tender for the construction of a reservoir.

The project calls for 36,000 cubic metres reservoir, in reinforced concrete. It will be part buried with a five and a half metre deep excavation have a concrete base, walls and covered top and be supported by 224 circular concrete columns.

Included in the contract are 1,300 metres of main laying and access road and landscaping.

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than
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Full particulars of the Notes and of Svenska Handelsbanken are available in the Extel Statistical Service and may be obtained during usual business hours on any weekday (Saturdays excepted) up to and including July 18 from the brokers to the issue.

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Geoffrey Owen examines the survival strategy of Baker Perkins, the food-to-packaging group

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10
LOMBARD

Don't be afraid of T and T

BY SAMUEL BRITTAN

Who is afraid of Taylor and Threadgold? Answer: British Treasury Ministers. The two gentlemen in question are Bank of England economists who wrote Bank of England Discussion Paper No. 6, showing that on a proper inflation-adjusted deficit the famous Public Sector Borrowing Requirement (PSBR) hardly exists.

The concept they use is the General Government Borrowing Requirement, but the principle is much the same. The calculations, brought up to date in the June issue of the Bank of England Bulletin, show that the real borrowing requirement was actually negative in the last couple of years and only £1bn to £2bn in 1975-76 when the international alarm was being raised.

Treasury Ministers and officials have always ducked when confronted with these calculations. But it is important that people should be discouraged from using them to suggest a massive Budget giveaway and the abandonment of PSBR objectives.

Paradox

The detail for particular years should make one extremely suspicious. The Taylor-Threadgold method is to take the nominal borrowing requirement and add back the "notional" gain on monetary liabilities—that is the losses suffered by holders of Government securities as a result of the fall in the real value of their securities. The paradoxical result is that for any given nominal value of Government borrowing, the offsetting adjustment is greater the higher the rate of inflation.

The largest adjustment is recorded—9 per cent of the national income—is for the 1976-77 year of 1975 when the inflation rate averaged nearly 25 per cent. Such calculations would no doubt show that the German Government in the hyper-inflation of the 1920s, which was literally printing money by the trillion to meet its bills, was actually in surplus.

In fact it may have been so, but the calculations show that the Government was actually in deficit. It does not meet its bills by ordinary means.

so by an inflation tax on the monetary and fixed interest assets of its citizens. But the moral is that what is good inflation accounting is not necessarily a good guide to fiscal and monetary policy.

Borrowing

How then should Treasury Ministers who believe in honest accounting, run their fiscal affairs? The correct Budget deficit is that which can be financed without inflationary borrowing from the banks and without inordinately high interest rates (the latter being partly a political judgment). In the short term the only way to do this is to "suck it and see."

But there is also another approach. Let us assume that the present medium term plan to 1983-84 is succeeded by another with the goal of low inflation but complete price stability by the late 1980s. At the end of the second period the inflationary adjustment for government borrowing would be zero. Thus a long-term plan for price stability would have as its terminal point precisely the same expenditure and tax implications as one calculated on Taylor and Threadgold lines.

As there is in any case a strong argument for averaging the gearing adjustment in inflation accounting over a period of years, it is quite sensible to assume a target balance of the accounts over the 1980s, which would be the correct end-point inflation adjustment if one does not take price stability literally) and not worry about the accounting treatment of monetary liabilities in the interim.

The Taylor-Threadgold apart, the Treasury's case for allowing the borrowing requirement to rise to the point where it acts as a built-in stabiliser. This is quite compatible with monetary control. It would mean allowing increases in the PSBR due to a recession-induced revenue drop to be offset by a corresponding increase in the borrowing requirement. The case for monetary adjustment is, however, best argued on its own merits and not as an adjunct of inflation accounting.

A law of the sea runs aground

A MARITIME lien is a privileged claim upon a ship in respect of sums due to it, or to its charterparty, by the owner or charterparty. It is one of the prime principles of the law of the sea and is very far-reaching in its effects.

A decision of the Judicial Committee of the Privy Council recently in an appeal from Singapore, *Bankers Trust International Ltd. v. Todd Shipyards Corporation*, however, has stripped the maritime lien of much of its effectiveness by deciding that in modern law it is no more than a procedural remedy. It is not a valuable right of property.

As the two dissenters, Lords Salmon and Scarman, observe: "So far from being far-reaching, its validity and effect will be subject to the domestic law of the forum in which it is sought to be enforced." They went on to say that, if this be the law, we have travelled a great distance from the concept of a universal law of the sea. We have returned to the legal climate which in England prior to 1840 nourished the common law courts by excluding the Admiralty jurisdiction from the body of the county, i.e. the internal waters, ports, and harbours of the country. In the climate of a dominating domestic law the concept and principles of the law of the sea wilt and die.

The facts of the case were short and simple. An English company, Bankers Trust Inter-

national, was the first mortgagee of a British ship, the *Halcyon*, which was registered as such on May 8, 1974. In March 1974 American ship-repairers, Todd Shipyards Corporation, did repairs and supplied materials to the ship while it was in port at New York. The vessel reached Singapore waters, where it was later arrested, in the summer of that year. The ship-repairers had issued a writ against the ship; so had the mortgagees. After arrest, the ship was sold by order of the Singapore Court.

In due course the ship-repairers obtained a judgment for \$237,011 and the mortgagees a judgment for \$13,000. The proceeds of the sale of the ship amounted to only \$138,000. If the mortgagees were right in rejecting the ship-repairers' maritime lien as conferring any priority, they would take all; if the ship-repairers were right in claiming the full benefit of their lien, they would be paid in full, leaving the mortgagees with what remained after the ship-repairer had been paid. The court distributing the limited fund was faced with the problem of classifying foreign claims arising under differing foreign systems of law in order to assign each of them to the appropriate class in the order of priorities under the law of the distributing court.

There are basically two ways in which the distributing

court can approach the problem. The first is to classify the foreign claims by reference to events upon which the claim is founded, giving to it the priority to which it would be entitled under the law of the distributing court as if those events had occurred within the territory of the distributing court. That approach has the

contract against strangers to that contract, the other creditors. Such other creditors will have done nothing to arouse any legitimate expectations in the party to the contract, so the latter will be entitled to the distribution of the fund.

Every such creditor must know that any rights to priority

he may have over other classes of creditors in the distribution of a limited fund resulting from an action against a ship will be compared to yield to the law of any foreign court in which the action may be brought. Universality of the law of the sea cannot in the real world be complete.

In the present case the ship-repairers knew perfectly well that, as soon as the *Halcyon* vacated its berth that she had been occupying in the busy yard at New York, they were relinquishing their possessory lien for the unpaid work they had done on the ship. Likewise they would have known that if and when the ship entered a port in any of the major trading countries of the world while their bill remained unpaid, they could have been arrested and in this way obtain

security on the ship for their claim, subject to a caveat to claim, postponed to any other claimants who might be entitled to priority as between various kinds of maritime claims under the local law.

That approach, simple and morally sustainable as it might be, did not commend itself to Lords Salmon and Scarman.

They took the view that the ship-repairers would never have allowed the ship to leave their repair yards in New York without payment unless they were assured that the law conferred on them the right of property by way of a maritime lien. The importance attached by the ship-repairers to this was shown by the terms of their contract. It included a term: "Nothing herein shall be deemed to constitute a waiver of our maritime lien." Since many countries give priority to maritime liens over mortgages, this fact refuted the suggestion made by the majority of the Law Lords that the ship-repairers must have been aware that their lien might be disregarded by other claimants which might apply and when a limited fund had to be distributed among creditors.

Furthermore the repairs enhanced the value of the ship and therefore added to the value of the mortgagee's security.

The law relating to the repair of ships in England under contracts governed by English law differs from that

in the U.S. The repairers of a ship in England do not acquire any maritime lien over a ship which they have repaired; accordingly they rarely allow a ship to leave their yard until they are paid or have arranged other security for the repairs.

In England, therefore, the court decides the priority of the rights that exist against a ship. For example, rights conferred by a maritime lien take precedence over the rights of a mortgagee. The question in the *Bankers Trust* case was: does English law (or Singapore law, which is the same) recognise the maritime lien created by the law of the U.S. where no such lien exists under its own law?

The majority relied upon the International Convention of 1926 on the Law of the Sea, which is a Convention characterisation of the maritime lien as procedural or remedial only, and governed by the law of the country distributing the limited funds. But that Convention has not been signed by Singapore or ratified by the UK, and so could not strictly be relied upon as affecting the result of the case.

The nations of the world have so far failed to introduce a uniform code governing maritime liens. The creation of such a code is the task of the International Maritime Organisation, which is now working on the subject.

The law relating to the repair of ships in England under contracts governed by English law differs from that

THE WEEK IN THE COURTS

BY JUSTINIAN

merit of simplicity, and the majority of the Law Lords thought that it was right in principle.

The distributing court, when dealing with a limited fund, is not concerned with enforcing against the debtor himself the individual creditors' rights against him. It is concerned with administering justice evenly-handedly between competing creditors whose respective claims will have arisen under a whole variety of different and conflicting systems of national law. Rights of priority over other creditors of the defaulting party to a contract are not rights of the parties to the contract against one another, when it comes to judicial distribution of a fund insufficient to satisfy all the creditors in full. They are rights as between one party to

the contract against strangers to that contract, the other creditors. Such other creditors will have done nothing to arouse any legitimate expectations in the party to the contract, so the latter will be entitled to the distribution of the fund.

Every such creditor must know that any rights to priority

he may have over other classes of creditors in the distribution of a limited fund resulting from an action against a ship will be compared to yield to the law of any foreign court in which the action may be brought. Universality of the law of the sea cannot in the real world be complete.

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Cole's three Edinburgh hopes

PAUL COLE, whose five-strong team at Bath on Saturday surprisingly failed to land a prize for the Lambourn trainer, should fare better at the other end of the country today.

Cole has sent three horses

on better than most here, is King Hustler, who goes for the New Hales Handicap. King Hustler is a three-year-old who last time won the Oakley Green Handicap.

King Hustler finished two lengths adrift of the winner at Bath, but he was a well-deserved success last time out when beating Royal Blood at Bath.

He looks certain to follow up in the Glenfuir Stakes which he can win at the expense of

Salvor's Prayer. That popular old campaigner, Le Caprice, is also entered with the five furlong handicap which carries his name.

For the likely winner is Irish Solitaire, a consistent sort who has travelled from Denys Smyth's Bishop Auckland stable. With R. Sidebottom able to claim his Sibs allowance Denys Smyth's course and distance winner will be carrying only 7 stone 12 lbs. He looks weighted to win.

EDINBURGH
2.00—Auregen Seaman
2.30—Chanson du Nuit**
3.00—Irish Solitaire
3.30—Cerna
4.00—Fairfax's Surprise
4.30—King Hustler**
5.00—Eight Roses**

Chanson du Nuit, King Hustler, and Eight Roses—to Edinburgh and each could win. His best chance and the soundest prospect of the day is Eight Roses, which runs in the Pentland Maiden Stakes.

Another Cole representative, who seems sure to be staying

News and Weather from Scotland. Northern Ireland. 1.15-1.30 pm Northern Ireland News. 1.30-1.45 pm Northern Ireland News. 1.45-2.00 pm Northern Ireland News. 2.00-2.15 pm Northern Ireland News. 2.15-2.30 pm Northern Ireland News. 2.30-2.45 pm Northern Ireland News. 2.45-3.00 pm Northern Ireland News. 3.00-3.15 pm Northern Ireland News. 3.15-3.30 pm Northern Ireland News. 3.30-3.45 pm Northern Ireland News. 3.45-4.00 pm Northern Ireland News. 4.00-4.15 pm Northern Ireland News. 4.15-4.30 pm Northern Ireland News. 4.30-4.45 pm Northern Ireland News. 4.45-5.00 pm Northern Ireland News. 5.00-5.15 pm Northern Ireland News. 5.15-5.30 pm Northern Ireland News. 5.30-5.45 pm Northern Ireland News. 5.45-6.00 pm Northern Ireland News. 6.00-6.15 pm Northern Ireland News. 6.15-6.30 pm Northern Ireland News. 6.30-6.45 pm Northern Ireland News. 6.45-7.00 pm Northern Ireland News. 7.00-7.15 pm Northern Ireland News. 7.15-7.30 pm Northern Ireland News. 7.30-7.45 pm Northern Ireland News. 7.45-8.00 pm Northern Ireland News. 8.00-8.15 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FINANCIAL TIMES SURVEY

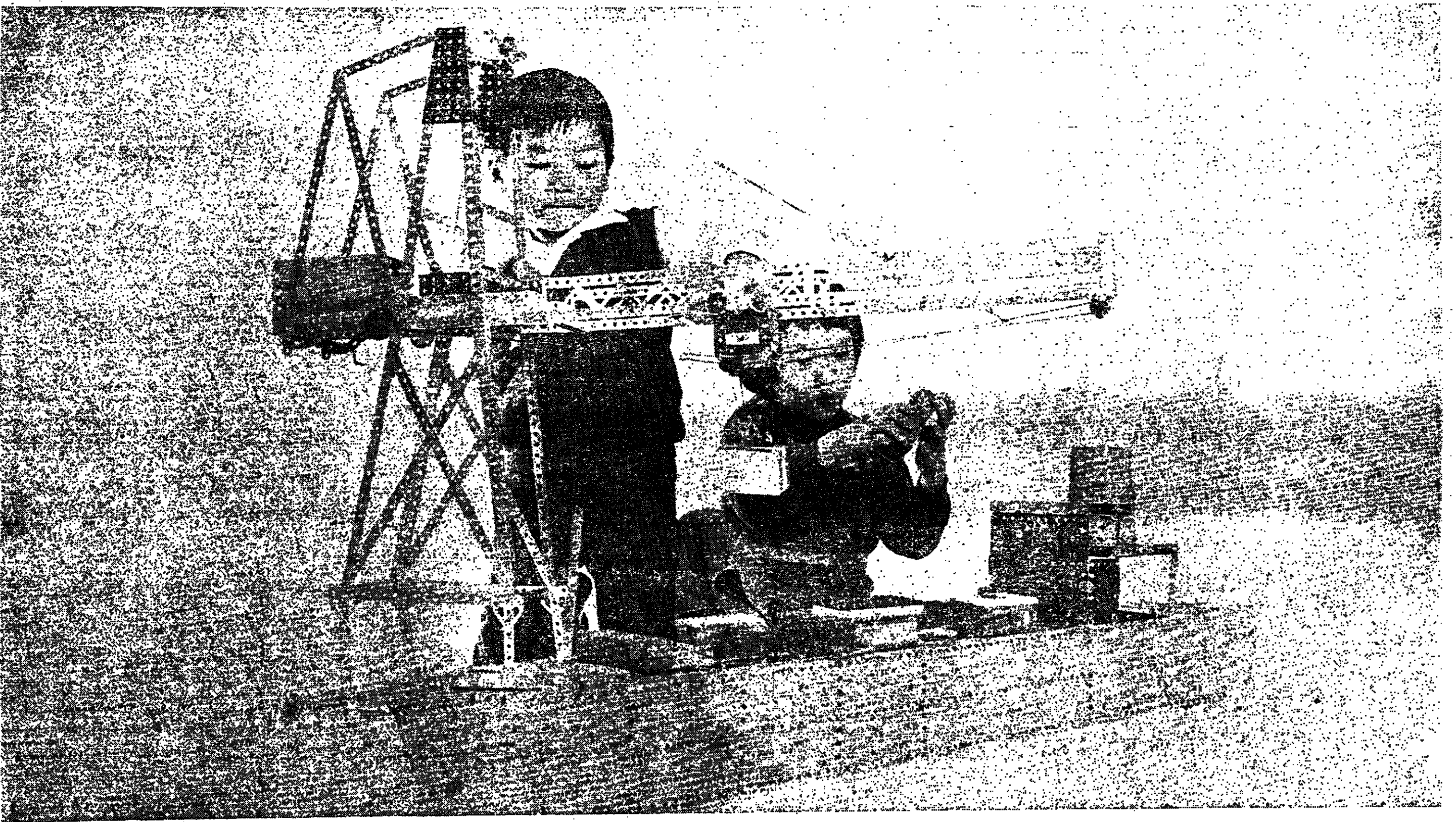
Monday July 7 1980

Hong Kong

The colony is advancing quickly. It has had four years of double figure GDP growth and China, which once viewed it as an unhappy necessity, now courts its modern ideas and the wealth which flows from them. But the Government must take a more positive role if the impetus is to be sustained.

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HONG KONG II

Still travelling hopefully on the headlong rush into the future

HONG KONG has travelled very far very fast in the past three years. It has had neither time nor inclination to stop and think about where it is going, suggesting that for this anomalous but very necessary city state it is better to travel hopefully than to arrive anywhere too specific.

The movement has been on two fronts. Most obvious, has been economic progress, outstanding even by Hong Kong's pace-setting standards. Four years of double digit expansion in Gross Domestic Product has more than made up for the 1975/76 recession setbacks and even now with world markets facing severe recession, the figures mostly look surprisingly good. The Government's February forecast of 9 per cent GDP growth for the current year may have to face a little downward revision later this year because of the suddenness of the fall into recession of the UK and U.S. economies. But even the pessimists are still looking for 6-7 per cent growth this year.

The economic outlook into 1981 is at this stage rather dismal. But Hong Kong can take comfort from the fact that, despite its external trade dependence, it does have its own economic future at least in part in its own hands.

It knows what those hands have wrought—a dynamic and perhaps uniquely flexible economy, a society entirely imbued with the spirit of commerce. It is difficult for those who live there to realise that in many parts of the world the very word "commercialism" is the only "ism" of importance in Hong Kong, has a pejorative air. It is Hong Kong's individualistic commercialism which is at the root of the colony's

success and puts it in spirit closer to the overseas Chinese of South East Asia than to the East Asian economies, Japan and South Korea, where the billions of heavy investment and large scale organisation and mass discipline are the driving force.

Hong Kong's other fast moving front has been an altogether less familiar one than commerce and industry. It is also one where Hong Kong's destiny is almost entirely outside its own hands. That is, the external political environment.

The change in China's attitude stemming from the Four Modernisations policy has had a dramatic effect on the way in which Hong Kong is viewed from across the border. Where there was once sullen and silent acceptance of the necessity for this capitalist and colonialist leftover from the past, there is now an almost simplistic yearning for Hong Kong as the fount of modern ideas and their attendant wealth.

Chinese zeal

That is reflected in the zeal with which China has moved to attract investment from Hong Kong to create co-operative ventures both in China and in Hong Kong with local and foreign capitalists, and to use the most blatant and banal techniques of modern consumerist advertising to sell its wares in Hong Kong.

At more mundane levels are the close co-operation, on a day to day basis, between officials of Guangdong and Hong Kong on a large number of practical issues such as water supply. Mutual visiting by officials has become commonplace.

At the highest, but least specific level, are the contacts

which have been made in Peking by the Governor, Sir Murray MacLehose, and the Financial Secretary Sir Philip Haddon-Cave, both of whom visited the capital in the past year.

Meanwhile, back in London the election of a Conservative Government last year has also been a boost to Hong Kong. Under Labour, Hong Kong was at best a nuisance to Britain, at worst a pariah. For Mrs. Thatcher's Government, the City state is a shining example of what can happen when the spirit of commercialism is unchained. Gone is the talk heard in the corridors of Whitehall two years ago that Britain should be looking for a way out of its responsibilities to Hong Kong.

But improvement in the political climate does not in itself remove the political problems that do exist. These are twofold. Firstly, who should run (rather than merely administer) Hong Kong in the long term? And secondly, as relations increase so inevitably will differences of interest. How will these be settled?

The most glaring difference of interest at present is over immigration. Although China has tightened the border since the peak inflow last year, legal and illegal immigrants continue to flood to the overcrowded city. This year, immigration is expected to add 3 per cent or nearly 150,000 people to the population.

China, it seems, lacks the will to stop the flow. Why? It could be part of policy to sustain inflow at whatever level it thinks the Hong Kong economy can absorb. China is not going to allow itself to be blamed for creating mass unemployment should there be a recession. But it is also in

China's interest to maximise its own earnings from Hong Kong, and, perhaps, slow the rate of growth of per capita incomes in Hong Kong to prevent further enlargement of the gap with China.

In practical terms there is now a strong case for Hong Kong returning all illegal migrants to China. There is even a case for refusing to accept all the legal migrants (those allowed out by China). But does the Hong Kong Government have the political will to undertake policies which are clearly in the interests of Hong Kong's residents but may run contrary to the desires of the ultimate landlord?

Power sought

The question of the location of real power links to that of the problem of the expiring lease. This is not a topic to which Peking is in any hurry to address itself. But Britain, and foreign investors, do need the surety of some sort of legal basis for their continued presence. And Britain must expect that its responsibilities in Hong Kong must be accompanied by real power. It cannot allow its authority to continue to be whittled away by the rapid growth of day-to-day links between Hong Kong and China and the natural assumption in China that the authorities in Hong Kong are just convenient catspaws.

Last year, Sir Murray MacLehose's successful term as Governor was further extended to 1982. Hopefully for Hong Kong this period will see substantive discussions with China about the future in place of the morale-boosting pleasantries which so far have emanated from Peking.

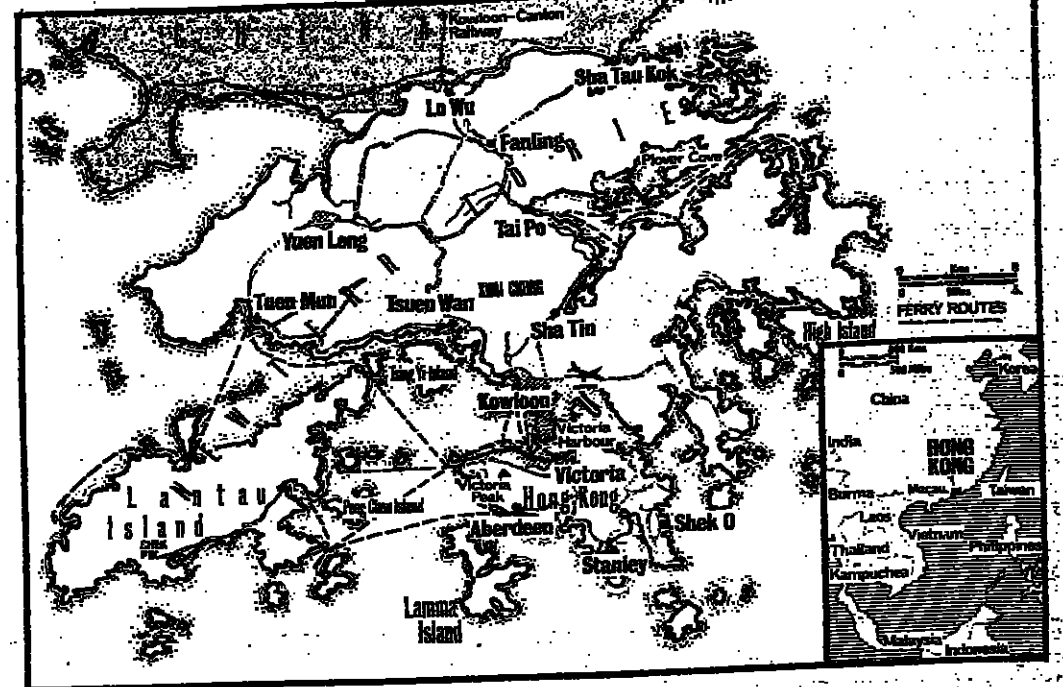
Government in Hong Kong has always been a sickly child, mothered by necessity but illicitly fathered by commerce and social requirements of a more sophisticated society demanding a more positive, interventionist role by Government. Yet that Government's self-confidence is being sapped by its awareness of archaic origins. It is squeezed between a multitude of demands.

There is an increasingly large and articulate educated middle class looking for bureaucratic power, and a new Chinese business class looking to supplant older, European, elites. There are the aspirations of Peking and Canton. And the aspirations and social needs of Hong Kong's majority—its working class. There are the forces of corruption, still at large. And there is a police force too aware of its power and indispensability for the public good.

The Government expected to accept some responsibility for helping to promote economic and financial stability, law, order and justice. Yet last year its plea to the banks to show more restraint in granting credit went largely ignored. And the commission it appointed to supervise the conduct of the securities industry was treated with contempt by the most powerful local commercial institution, the Hongkong and Shanghai Banking Corporation.

The task before both the Hong Kong Government and China may be to learn that administration and government are not the same thing.

Philip Bowring



BASIC STATISTICS

| | | |
|--------------------------------------|----------------|--|
| Area | 404 Sq. Miles | Imports: HK\$ 85,852m (£7,787m) |
| Population (79) | 4.9m (est.) | Domestic Exports: HK\$ 55,925m (£5,073m) |
| G.D.P. (79) | £7,946m (est.) | Re-Exports: HK\$ 20,024m (£1,816m) |
| Per capita (79) | £1,622 (est.) | Imports from U.K.: £442.2m |
| Currency £1: 11.50 Hong Kong dollars | | Exports to U.K.: £690.7m |

China plans to gain from its capitalist neighbour

HONG KONG has prospered as China has set out on a course of modernisation. Meritfully, Peking is convinced that it, too, stands to gain by the colony's brash brand of capitalism.

At present, business confidence is high, bolstered by calming words from Peking that hearts should "rest at ease" over the future of the colony. There are ominous signs, however, that unless concrete action replaces promises within two years, then the bubble will burst.

The conundrum rests with Britain's lease on Hong Kong's New Territories, which is due to expire in 1997. China has never recognised the lease, claiming it was signed by the then Chinese Government under duress. In their eyes, Hong Kong is—and always was—part of China.

Mr. Jimmy McGregor, director of the Hong Kong Chamber of Commerce, and one of Hong Kong's most-travelled businessmen in China, has strong views that every great weight both in Hong Kong and in Peking.

"Hong Kong exists on international confidence alone," he said recently. "The business decisions taken by Boards of directors in the international companies based here will only be taken if they have a reasonable expectation that the status quo will not be disturbed. When you talk of confidence in investment, it's not 1997 you are looking at—it's 1985."

Mr. McGregor claims that once a loss of confidence becomes observable, the curve of falling confidence will be steep. Investments tied down by over 500 foreign companies in Hong Kong, worth a total HK\$30bn, would be in jeopardy. These companies account for 8 per cent of the Colony's exports, and employ 8 per cent of its workforce. Local companies would quickly suffer, and the Colony's trading and financial community would vanish.

Crucial trigger

"If China has any intention of permitting the maintenance of a British Administration in Hong Kong into the next century, then China had better make that clear within the next two to three years," he adds.

The most crucial trigger will be when loans and mortgages—normally repaid over a 15-year period—stretch beyond the lease expiry date. That trigger slips in June 1982. Less specifically, companies' long-term investment plans, expansion plans and decisions to upgrade equipment will soon be determined without guarantees that the status quo will persist beyond 1997.

The Chinese must completely understand this, Mr. McGregor insists. "They are by no means ignorant of the facts. The British Government clearly understands the position, but Hong Kong is a small place, a very long way from Europe. It's a small problem among a lot of larger ones. Britain no longer much likes the idea of colonies, and China finds them anathema."

Unfortunately, Hong Kong seems to be just as small an issue for the Chinese as it is for the British. As one analyst recently noted: "As the most populous nation in the world sets about modernising its economy, its leaders are not about to be distracted by questions surrounding the status of a 60m people living on borrowed land."

The Chinese leadership has shown no sign of intending to take an early decision. Mr. James Callaghan, former British Prime Minister, came out of China just a month ago after discuss-

ing the future of Hong Kong with Peking leaders. He said: "There was no sense of tension on their part, nor have they got it on the front of their minds or on the agenda. They have internal problems of very great moment that they regard as demanding their day-to-day attention rather than the problem of the future of Hong Kong."

"They see the value of Hong Kong as much as anyone else does, and I would guess that when the time comes for discussions, it ought to be possible to reach an agreement."

Mr. Callaghan advised Hong Kong to put the issue "on the back burner for the time being."

In the meantime, economic links with the mainland have multiplied. China earns one third of its foreign exchange through Hong Kong—about \$4bn. Over 28 per cent of Hong Kong's re-exports come from China, and in 1979 were worth HK\$5,660m. China is now Hong Kong's ninth largest export market, after 500 per cent growth between 1978 and 1979.

'Shop window'

Hong Kong gets almost half of its food from China, 60 per cent of its water, 30 per cent of its fuel, 18 per cent of its consumer goods and 13 per cent of its raw materials. Apart from the fact that Peking uses Hong Kong as a "shop window" on Western technology and expertise, Chinese investments in the colony are burgeoning. They range from banks and property to manufacturing industry and retail outlets.

China Resources, and other proxy organisations, have received finance from the Bank of China to have been active property buyers. Major projects, like China Light and Power's new multi-billion dollar thermal station, have substantial Chinese funding.

There is talk of Hong Kong being used as a base for oil exploration in the South China Sea, perhaps with a refinery processing Chinese crude. Its port is undisputedly better than any in China, and is likely to be exploited as a focus for Chinese shipping.

Joint ventures and compensation trading arrangements concluded between Hong Kong companies and suppliers in China have become too numerous to list. Hong Kong businessmen are daily visitors to neighbouring Guangdong and Fujian province. The export processing zones (EPZs) at Shenzhen, Juhai and Shikou are fast being transformed from bare plots of land to busy business centres.

Bill Dorwood, director of Hong Kong's Trade, Industry and Customs Department, is a recent visitor to the EPZs. He said: "They are clearly going to be very substantial and significant developments, attached like limpets to the Hong Kong economy."

A recent Hong Kong mission to Canton, led by Sir Yuet-Keung Kan, head of the colony's Trade Development Council, discussed joint infrastructural development between the colony and Guangdong—double tracking and electrifying the railway line to Canton, and building a dual carriageway road. The economic fates of Hong Kong and its Chinese hinterland have become irrevocably intertwined.

Along with the economic links, political contact has become routine. Since Sir Murray MacLehose's visit to Peking in May last year, top level talks have been held with Chairman Hua Guofeng, Vice-Premier Deng Xiaoping, Foreign

Minister Huang Hua, and trade Minister Li Qiang. Sir Philip Haddon-Cave, Hong Kong's Finance Minister, Sir Y. K. Kan, and numerous other leading businessmen have been feted in Peking.

Despite the improving relationship, and the recognition that both parties need and gain from their close relationship, areas of conflict have emerged. The most obvious is the critical problem of illegal immigration into Hong Kong. More than 175,000 Chinese escaped to Hong Kong last year, making nonsense of the colony's population growth projections, and putting severe strain on housing and other amenities. Talks have been held on this problem in Peking and Canton, and Hong Kong authorities are doing its utmost to staunch the flow. But observers agree that it will only stop with greater influence on the mainland—only then will the bright lights dim.

There is fear that China's exports may soon compete with those of Hong Kong, particularly in textiles, garments, and electronic goods. Li Qiang, China's Trade Minister, has given an assurance that "the development of industries in China for export will not undermine Hong Kong's prosperity through competition for world markets." Hong Kong businessmen will believe it when they see it.

Conflicting interests also emerge in planning for a new international airport to serve the region. Hong Kong's Kai Tak airport is expected to reach capacity by 1985, and a new airport must be built. A site on a small island north of Lantau has been selected as most appropriate, but the Chinese have hinted that they would prefer an airport on the Chinese side of the border, designed to serve both Hong Kong and Canton. There is uncertainty over Hong Kong's ability to finance an airport of its own without Chinese financial backing, so opposition could block development.

Conflict

Most crucially, there are conflicting ideas about the extent to which Hong Kong can merge with the surrounding region. Some voices in China argue that the colony could eventually merge with Guangdong province, simply becoming a wealthy and industrialised zone. Other voices in Hong Kong panic at such an idea, claiming this would destroy the free-wheeling capitalist system which has made it wealthy.

Hong Kong must evidently become Chinese in due course—the question to be resolved is how. Mr. Jimmy McGregor is prepared to offer a solution which would satisfy business confidence: "If Britain repudiated the lease as illegal and improper, and as a *quid pro quo* the Chinese recognised Britain's magnanimity and friendliness, simultaneously agreeing that Britain should be allowed to administer Hong Kong until the matter could be permanently resolved, say in 2020, then we would have no reason to worry."

Britain would have washed its hands of the "colonial" embarrassment, Chinese concern over sovereignty would be resolved, and Hong Kong would remain a highly internationalised city with a powerful mixture of Chinese and foreign influence running the economy. The phrase "British-administered territory of Hong Kong" has a promising ring about it.

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World situation governs where the economy goes next

HONG KONG is usually seen as a boom and bust economy, more boom than bust for sure, but nonetheless it has a reputation for going to extremes. But those who have been waiting for a bust for anything up to 18 months have so far seen their dismal forebodings confounded. Certainly the statistics suggest that the cycle is overdue for a sharp turn. In the post-1973 recession period, Hong Kong has enjoyed the longest sustained boom in its post-World War II history. Every year from 1976 to 1979 it recorded double digit growth in Gross Domestic Product. The average for the four years was 12.5 per cent. This year, growth is forecast to fall to around 9 per cent, but that is still up to the pre-1974 average at a time when world growth rates were significantly below this level. 1974 levels. Such a performance, brisk even by the standards of Hong Kong, poses three questions:

- Is a bust now imminent?
- Has the performance been due to some very special and unrepeatable factors?
- Has the economy matured and broadened to the point where it is able to make a stable transition from very rapid growth to sluggish conditions?

It may seem paradoxical, but the answer to all three questions may well be a qualified "Yes."

Not alone

As ever, the world situation is by far the largest determinant of where the Hong Kong economy goes next. But it is not the only one. Historically, Hong Kong's trade has grown about 50 per cent faster than world trade and its economy by a rather lesser amount. But in the past few years, the very rapid growth of service industries has enabled the economy to expand much faster than manufacturing. That is a stabilising factor. At the same time, however, the overall economic situation has perhaps become potentially more volatile than in the past due to erratic behaviour of money supply, the increased role of the construction industry, and the property sector generally, and large scale immigration from China.

Last year, trade expanded considerably faster than even the optimists had predicted. In real terms, domestic exports grew by 16 per cent and total exports by 19 per cent as re-

export business leapt by 29 per cent as Hong Kong re-emerged as a significant entrepot port for China trade.

Sales to Britain and West Germany were especially strong, growing by 28 per cent and 22 per cent in real terms respectively, partly in response to the sharp decline of the Hong Kong dollar against both sterling and the Mark. Sales to the U.S. on the other hand expanded only 8 per cent in real terms. Hong Kong's relative market position last year seems to have been strengthened by over-valuation of the Korean won (which has since been devalued) which dealt a severe blow last year to this former front runner among East Asian exporting countries. For the year as a whole the Hong Kong currency was 8 per cent lower on a trade-weighted basis. Meanwhile wages rose 19 per cent.

Dramatic rise

External demand last year was thus better than expected and Hong Kong was able to meet it in large measure due to the huge influx of immigrants from China, and absorption of many Vietnamese refugees into the workforce. The population of Hong Kong last year rose by a dramatic 6.3 per cent and the workforce probably by an even greater amount. The influx held down wages in the unskilled manufacturing sector, enabling industries to maintain competitiveness when only a short while earlier excessive domestic demand was threatening to raise wages above international competitive levels.

The trade story so far this year, however, is not so encouraging. In his Budget, the Financial Secretary Sir Philip Haddon-Cave, forecast growth of domestic exports of 7 per cent in real terms, underpinning a 9 per cent rate of growth of GDP. Domestic exports in the first four months grew 36 per cent in money terms over the same period of 1979, but the momentum has slowed since the last quarter of 1979 and sharply lower year on year increases can be expected in the coming months. Sales to the U.S. and UK held up well in the first four months but the impact of the recession in which both countries are now mired has yet to be reflected in Hong Kong's trade figures.

Recession and higher energy

prices are likely to lead to some deterioration in Hong Kong's terms of trade, which have been steady for the past few years. On the brighter side, the fact that Hong Kong's industries are not energy dependent or transport related should provide a shield.

At present there is more concern at the level of the visible trade deficit than with export demand. The deficit in 1979 was HK\$9.9bn, 10 per cent higher than the previous year but less than expected and a level roughly matched by earnings from services.

Service receipts have grown very rapidly in the past few years. Statistics on them were almost non-existent until recently and even now are only approximate. But it is estimated that for 1978, service exports amounted to HK\$14.4bn and imports to HK\$7.1bn leaving a surplus of HK\$7.3bn.

Since then, earnings, particularly from financial services and entrepot trade, have increased rapidly, but so too have payments, largely due to the very large amount of travel both to China and overseas now done by Hong Kong people. Last year the services surplus is estimated at HK\$10bn—the same size as the trade deficit.

This year however, the trade deficit is widening sharply. The first four months showed a deficit of HK\$6.3bn compared with HK\$4.6bn for the same period of 1979 and there is unlikely to be a second half improvement of the size seen last year. Though as a percentage of total trade the deficit will remain within historical limits, its sheer size could cause a marked weakening in the currency unless interest rates remain above most levels overseas.

The Government at least is likely to oppose interest rate reductions. Although prime rate has been reduced by 3 percentage points from the 16 per cent record it reached in March, the government is still concerned to try to keep the lid on demand for credit and it wants to avoid a decline in the currency adding to price increases.

Inflation is now at a worrying level. Though not as high as it reached in 1973/74, it seems to be more deeply ingrained. Consumer prices in 1979 were an average 12 per cent up on 1978, part of the cause being the currency decline.

| ECONOMIC STATISTICS | | |
|--------------------------------|-----------------|----------------------|
| | 1979 | 1980 Budget forecast |
| GDP real growth | +11.5 per cent | +9.0 per cent |
| per capita | +4.5 per cent | +5.0 per cent |
| Domestic exports | +16.8 per cent | +7.0 per cent |
| Re-exports | +28.8 per cent | +14.0 per cent |
| Imports | +15.6 per cent | +11.0 per cent |
| Trade balance | -HK\$9.902m | -HK\$12.5bn |
| Private consumption | +7.7 per cent | +9.0 per cent |
| Public consumption | +12.3 per cent | +12.0 per cent |
| Capital formation | +23.0 per cent | +15.0 per cent |
| Money supply (M3) | +29.0 per cent | na |
| Consumer prices | +11.6 per cent | +10.0 per cent |
| GDP deflator | +12.3 per cent | +11.0 per cent |
| Manufacturing wages (Sept. 79) | +HK\$48 per day | na |
| Exchange rate index | +8.0 per cent | na |
| Unemployment rate | +3.0 per cent | na |
| GDP at current prices | +HK\$87bn | HK\$106bn |
| per capita | +HK\$17,525 | HK\$21,000 |

But although the currency has stabilised, the rate of price increase has gathered speed and is currently running at around 15 per cent.

Money supply has been growing even faster, but how much of this is cause and how much effect of inflation is a matter of debate. The Government claims that inflation is largely imported and money supply has only been rising slightly faster than nominal GDP. However, it is anxious to bring money supply and credit under tighter rein through interest rates. Increases in broadly defined money supply and total credit to the economy are probably now slowing but at 6.9 per cent and 13.9 per cent respectively in the first quarter alone there is a long way to go.

Over-exposed

Excessive credit growth may, in Hong Kong's open economy, not be especially inflationary. But it clearly threatens financial stabilisation if it comes to an abrupt halt or the economy moves into recession. Credit increases have been most pronounced in the construction and housing sectors. Many property values seem based on the assumption that credit increases will continue at recent levels. Meanwhile high land prices and interest rates and dampening demand for premises are leaving many developers over-exposed.

Although heavy immigration has increased the need for more housing and helped keep down increases in construction costs, it has also held down the in-

creases in real incomes needed if private sector housing is to flourish. Although manufacturing wages as a whole rose by some 5 per cent in real terms last year they are now declining again. Immigration has slowed but population growth is still expected to be well over 4 per cent this year indicating negligible per capita income growth.

The impressive GDP figures of the past two years have tended to hide the negative impact on both the money and social wage of high immigration. In the very short term the economy may have benefited, equalling export demand to be met and wage cost pressure to be dampened. But in the long term the influx dilutes the impact of Government social spending and impedes the economy's shift to capital-intensive, higher value added industries. Capital will stay in labour-intensive industries and the low level of skills of the immigrants will impede industrial change.

In the short term a coincidence of immigration with world recession may produce higher unemployment and a sharp fall in real wages. Immigration is the dark side of the new economic relationship with China that has brought benefits in so many other ways.

The danger at the moment is that stagnation in external trade will coincide with the falling off of the construction boom going into reverse, growth in the services sector slowing sharply from recent high levels and domestic consumption being sharply constrained by rising prices and a need to reduce the

TRADE GROWTH RATES IN REAL TERMS

| | Total exports of goods (%) | Total imports of goods (%) |
|------|----------------------------|----------------------------|
| 1970 | 8.4 | 13.6 |
| 1971 | 6.5 | 13.8 |
| 1972 | 6.8 | 3.5 |
| 1973 | 12.3 | 10.7 |
| 1974 | -6.3 | -10.3 |
| 1975 | 3.2 | 3.8 |
| 1976 | 28.0 | 24.8 |
| 1977 | 5.1 | 7.9 |
| 1978 | 13.8 | 21.5 |
| 1979 | 19.5 | 15.6 |

trade deficit. Construction activity, which has grown very rapidly in recent years, is vulnerable and investment in plant will probably flag after two years of massive purchases of items such as aircraft.

Not likely

It is unlikely that the public sector would be able to provide much relief faced with these necessary influences. On the face of it, the Government would seem to have been following a deflationary fiscal policy during the boom years which might—though the financial secretary would be loathe to admit any aspirations to a counter cyclical policy—allow of a mildly reflationary one during recession.

Last fiscal year (1979-80) there was a budget surplus of HK\$ 2.3bn following surpluses of HK\$ 1.4bn and HK\$ 1.2bn in the two preceding years. For the current year a surplus of HK\$ 3.4bn has been budgeted which amounts to some 3.5 per cent of GDP—a remarkable figure.

However, the surpluses are only deflationary to the extent that they are invested overseas rather than forming part of the local monetary base. Secondly, the surpluses are very directly related to the land and property boom generated by excessive credit. Capital revenue from property this year is estimated at HK\$ 6bn, double the previous year and three times that of two years ago. This revenue is not only unstable in character but its size stems directly from excessive credit expansion

and the overheating of the property sector.

The size of the surpluses thus created has hidden the rapid increases in public expenditure which have been taking place. Expenditure is forecast to grow 28 per cent this year to HK\$ 20.9bn. Increases in the preceding two years were 34 per cent and 31 per cent respectively. This is very rapid growth even after taking account of the trend in current price GDP in the same period, raising the ratio of expenditure to GDP to around 19 per cent from 14 per cent four years ago and an earlier peak of 17 per cent during the 1974-75 recession. The figures exclude spending, running at HK\$2bn a year on the Mass Transit Railway.

The increase in Government spending has mostly been on capital account and is partly due to construction costs, which have risen much faster than prices generally. But it also stems from a desire of the Governor to press ahead with all speed with housing and other social goals which had been set back by the last recession. The Financial Secretary appears to have been under considerable pressure to make the funds available when from a strictly economic viewpoint, taking account of the strength of private sector demand, a more conservative stance might have been preferred.

The Financial Secretary has admitted that this year's Budget does tend to be on the inflationary side.

Capital spending is probably now on a plateau where it will remain for some while. Just to maintain existing levels of services, Government consumption spending in real terms will have to grow by 9 per cent a year over the next few years, which will leave little room for capital spending increases, unless the Government's share of GDP is to continue to increase.

As it is, the very rapid increases in the past two years conjunction with the MTR construction added to severe pressures in the construction sector. And heavy spending now has left little room for manoeuvre in the event of another recession.

However the recent revenue boom has restored some of Hong Kong's fiscal cushion which in 1977 was looking distinctly thin with free fiscal reserves down to 15 per cent

of annual spending having once been as high as 65 per cent. The level of is now back up to about 30 per cent.

Meanwhile, Hong Kong's ability to borrow overseas, should it want to, has been further enhanced by developments in China. Indeed, growing economic co-operation with China may demand that Hong Kong step up its capital spending. Massive projects such as the new airport, an oil refinery and nuclear power come to mind, perhaps involving three way co-operation between China, the Hong Kong Government and private capital both local and foreign.

Comfort

Such developments are however still at the conceptual stage. For the here and now, Hong Kong must be concerned about the steepness with which its major markets are falling into recession. It must be concerned about the destabilising effects of excessive credit, the property boom and inflation, and about the impact of continued immigration on employment and wages.

But it can feel comforted too. The entrepot trade, which now accounts for 30 per cent of total trade compared with only 20 per cent three years ago, won't go away again. Nor will the bankers and businessmen who have come to Hong Kong to try to get a foothold in China.

Hong Kong's dependence on the vulnerable export manufacturing sector has declined. Manufacturing now accounts for only 25 per cent of GDP against 30 per cent a decade ago while that of financial services has risen from 14 per cent to 21 per cent. Thirdly, despite endless worries about apparent lack of industrial diversification, manufacturing has maintained its adaptability. Garments and textiles have continued to edge up-market. And Hong Kong is well placed in that greatest of growth industries, electronics. In sum, Hong Kong's spectacular growth of the past few years has been partly due to exceptional factors. It now faces difficult trade and adjustment problems. But it does so from a broader base and in less isolated circumstances.

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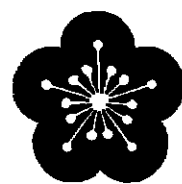
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HONG KONG IV



As border traffic to and from China increases, Hong Kong police keep a watchful eye on passengers at Lo Wu station.

History unlocks the border as Britain's lease runs out

FOR THOSE with patience, history provides its own solution to many problems. China has shown both perspective and patience—not to mention self-interest—in its attitude to Hong Kong; now history is in the making as the relic of a previous age—the 99 year lease on Hong Kong's New Territories, which has been the corner-stone of British rule—gradually loses its significance.

A solution, of sorts, is beginning to emerge not only from the relationship between Hong Kong, China and Britain, but also from relations between the City-State of Hong Kong and its hinterland.

China has never recognised the "unequal" treaties by which Britain acquired a small extremity of Guangdong. But 1997—the expiry date on Britain's lease—has always been meaningful to the legalistic British, who need a basis in law for their continued presence. The issue must still be resolved, if only to ensure a degree of continuity and to provide some legal guarantee for investments and land purchases by foreigners.

But what was once a tightly sealed border is becoming a permeable membrane, through which people, trade, investment increasingly pass. There are, of course, major problems on both sides in ensuring that only the desired elements get through—that China's peasant millions do not invade Hong Kong; that capitalist and consumerist ways do not weaken socialist morale in a still poverty-stricken China.

It would be wrong to see the current trend of creeping integration as a deliberate policy on the part of China. Rather, it is a natural outcome of political developments in China which have:

- Emphasised production above politics;
- Increased the perceived role of foreign trade achieving modernisation;
- Released Chinese Nationalist sentiments, encouraging co-operation with capitalist overseas Chinese and "compatriots" (the jargon word for Chinese people from Hong Kong and Macao);
- Allowed the provinces much greater autonomy—especially Guangdong and Fujian, which have historically close links with the overseas Chinese and "compatriots".

Despite the changes, Hong Kong's distinctive political and administrative status must continue. This status remains both the condition of the colony's usefulness to China, and the outstanding issue between Hong Kong, London and Peking. But meanwhile at ground level, in Guangdong, the events by which China aims to gain the maximum returns from Hong Kong are already taking place.

There are, however, links between the political and commercial issues. Last month saw the signing of an agreement between Hong Kong and Guangdong which marks the impending end of one of Hong Kong's once-cherished ability to survive without Chinese water. For Guangdong, the deal is primarily a commercial proposition. Sales of water (at con-

stant prices) will rise from HK\$ 60m a year at present to over HK\$ 200m by about 1992.

But for Hong Kong, the agreement means that China will account for 60 per cent of water supplies by that date, against 30 per cent at present. At its present level of dependence, Hong Kong could survive, uncomfortably, a Chinese cut-off. At 60 per cent it could only survive a fairly brief one.

Hong Kong's new attitude to Chinese water springs partly from its realisation that new attitudes in China have changed the relationship, and it is therefore better to cooperate for mutual benefit than to continue the stand-off policies favoured by China in the past. The emerging relationship is potentially much more profitable, but also potentially more difficult.

The second reason for a new water policy is simply that the cost of alternatives is so high, particularly as emergency-costs make desalination prohibitive, other than for emergencies.

Traffic rights

The greater willingness of Hong Kong to accept dependence on Guangdong has limits, however. Hong Kong seems adamant that it wants its own airport, even at high cost, to maintain its traffic rights as well as its independence.

For the future, however, the pattern seems to be one of growing dependence. Hong Kong has begun to sell power across the border to Shenzhen, and there is talk of building a nuclear power-station close to the border on the China side to supply both Hong Kong and the Canton metropolis.

Although the huge new facility being built at Tsing Yi should be able to meet Hong Kong's demand until well into the 1990s, nuclear plants have very long lead times so talk is not just idle speculation.

Meanwhile grass-roots links are growing almost by the day. Vehicle traffic is still light but growing very rapidly. An arrangement has been reached to allow registration of approved vehicles on both sides of the border. They carry traditional traded products such as vegetables, bring in raw materials, and take away finished products from factories in Shenzhen.

A bus service from Hong Kong to Canton via Shenzhen will start soon. Though much slower than the train, it opens up the possibility of further bus links to smaller centres in Guangdong and Fujian which are not accessible directly by train from Hong Kong.

The Hong Kong-Canton road is being improved through the replacement of two ferries by bridges. However, it is still a dirt road, and given the lack of emphasis attached to road transport in China it seems unlikely that the much-talked-about four-lane metalled highway between the two cities will materialise for some time.

First, it will be very costly; and second, it seems unnecessary while the railway remains so under-used. Hong Kong is at present improving its section of the railway at a cost of HK\$2bn. The programme, which involves electrification, double tracking and improved signalling, is designed to meet internal demand as population in the New Territories expands. But as it will provide a six-fold increase in capacity, it will leave plenty of scope for increasing the volume of Chinese goods railed to Hong Kong for transshipment. China is now seriously examining a project to electrify its section of the line.

The main focus of interest remains, however, what is happening on the border itself. At Shenzhen, Shenzhen, actually a small town just across the central section of the Hong Kong-China border, has also become the name of a new administrative unit which encompasses the border area—

Shenzhen municipality. The municipality contains two industrial zones: the Shenzhen zone, near Shenzhen town, and the Shekou industrial zone, a few miles to the west.

So far the Shenzhen zone has been the main centre of activity. It is the location of some 70 small compensation trade ventures, including toys, garments and footwear. According to one estimate, these yield about HK\$100m a year in "processing fees".

But the major focus in future will be the Shekou—special economic zone. Here the China Merchants Steam Navigation Company—a Hong Kong-based, China-owned shipping company—is developing a large site for heavier industries such as container repair and steel rolling. A dock is being constructed with berths for ships up to 3,000 tons which will give easy access to and from Hong Kong for heavy products.

As a special economic zone, Shekou has various attractions: joint ventures enjoy a lower tax rate, and components and machinery can be imported without duty provided the product is exported. All labour within the zone comes under one management company—aimed at recruiting above-average personnel. Undertakings also have the right to dismiss employees.

There is also a specific assurance in Shekou that items such as rent, electricity and water costs shall be no more and mostly very much less than in Hong Kong. Initially land will be available at only about HK\$ 3 per square foot per year.

Other developments are going on, particularly to expand the tourist trade—essentially day and weekend visitors from cramped Hong Kong.

In the long term, perhaps the most significant of all Shenzhen developments is housing. Several major property developments, involving more than a thousand flats, have already been announced. The flats are for sale to Hong Kong people and overseas Chinese. Purchasers are given a border pass which allows them to move freely between Hong Kong and Shenzhen—though not to other parts of China. The flats are currently being sold for around HK\$125,000 for 650 square food units—about one-third the cost of similar flats in

urban Hong Kong. They may be freely let or sold. Development is being carried out by share profits with the municipality.

Potentially, this development spinner for China, which is exploiting both its land and its cheap labour. It will have an impact on Hong Kong's own property market, and it has political significance because it Hong Kong's economic perimeter but not of its administrative one. If the property development, they will also run into key legal questions such as mortgages and security for loans. (At present purchases must be made in cash and before occupation.)

Hong Kong's centre of gravity has for some time gradually been shifting northwards as the New Territories have been opened up. Soon China may find, if Hong Kong investors have sufficient confidence, that there is an almost inexhaustible demand for flats at least as long as there is such a big gap between prices there and in Hong Kong. The gap will narrow if big developments continue.

Cheap land

For industry, low wage and "processing" rates, cheap land, and low to average utility costs make Shenzhen an attractive looking proposition for those prepared to accept that deals must mostly be arranged on an ad hoc basis with little if any formal legal framework. These advantages have in many cases been offset by very low labour productivity, lack of discipline, low quality work and in some cases infuriating bureaucratic delays. But Shenzhen should be valuable as a source of low price inputs into more sophisticated Hong Kong industries, or location for low value added but land-intensive businesses being priced out of Hong Kong.

The drawbacks are likely to lessen with experience and as attitudes come to equate more closely with the production and profit motives of Hong Kong. But the rest of China will continue to want to keep that kind of political contamination at arm's length. As a result there will be a kind of class structure defining four stages on the road between capitalism and socialism—Hong Kong, Shenzhen, the rest of Guangdong, and rest of China.

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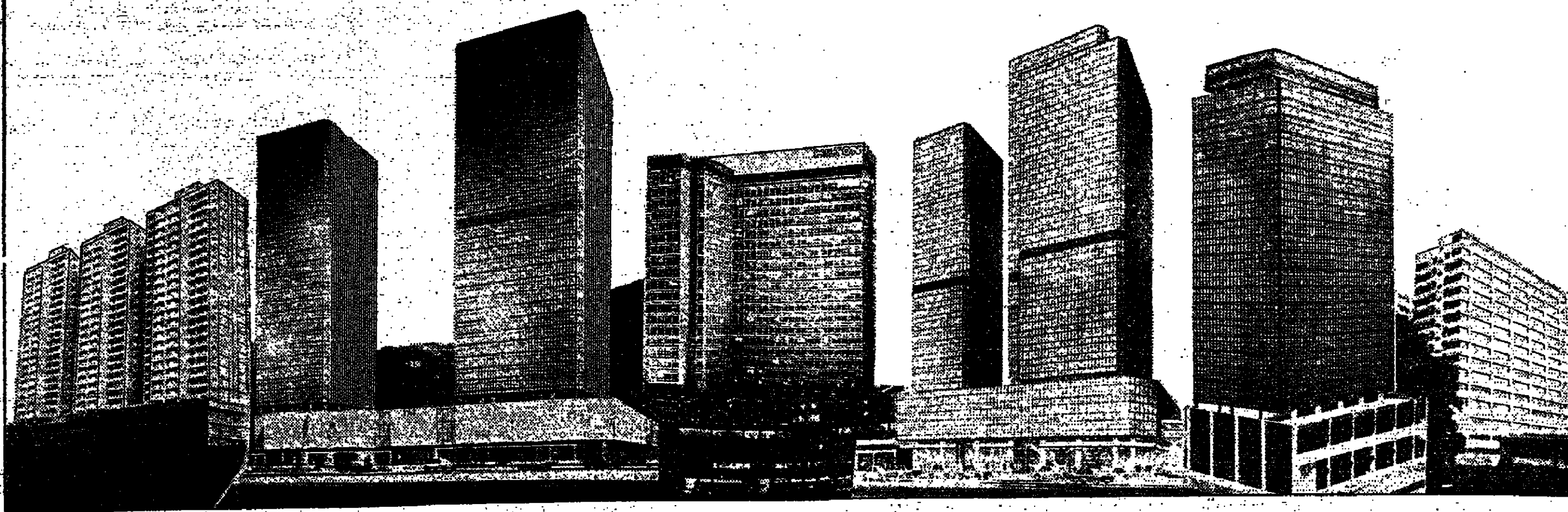
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- 1979 ORDINARY PROFITS AFTER TAX HK\$254.1M - UP 91.6%.
- 1979 PROFITS INCLUDING EXTRAORDINARIES TOTAL HK\$639M AFTER TAX.
- TOTAL DIVIDEND 55 CENTS PER SHARE - UP 53.4%.
- BONUS SHARE ISSUE ONE FOR ONE.
- 1.7 MILLION SQ.FT. OF FLOOR SPACE COMPLETED AND SOLD IN 1979.
- FURTHER 13.7 MILLION SQ.FT. OF INDUSTRIAL, COMMERCIAL, OFFICE AND RESIDENTIAL FLOOR SPACE UNDER CONSTRUCTION.
- WIDER BUSINESS BASE, ASSOCIATED COMPANIES INCLUDE :
 - CANADIAN EASTERN FINANCE LIMITED - 50% (WITH CANADIAN IMPERIAL BANK OF COMMERCE).
 - CHINA CEMENT COMPANY (HONG KONG) LIMITED - 25% : HK\$ 1.1 BILLION PLANT INVESTMENT.
 - GREEN ISLAND CEMENT COMPANY, LIMITED - OVER 25% : 2 MILLION TONS P.A. CAPACITY CEMENT PLANT.
 - HONG KONG HILTON HOTEL - 100%.
 - HUTCHISON WHAMPOA LIMITED - OVER 30%.
- 1980 PROSPECTS:
DIVIDEND WILL BE MAINTAINED AT NOT LESS THAN 55 CENTS PER SHARE FOLLOWING THE BONUS ISSUE, GIVING AN EFFECTIVE DOUBLING OF THE DIVIDEND.
- CHAIRMAN FORECASTS VERY SATISFACTORY GROWTH IN PROFITS FOR 1980.

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HONG KONG VI

Stockbrokers wary of merger plan

BROKERS in Hong Kong's four stock exchanges have a wary look. On the one hand, the traditionally laissez-faire governing authorities have been seeking reforms. On the other, market forces are uncertain, with many analysts predicting a downward trend in the months ahead.

A change in the way stockbrokers carry on their affairs has been in the wind for a while, but it was still something of a surprise this summer when the Office of the Commissioner for Securities advanced on two fronts.

First, it made it quite clear the time had come for a merger of the present four Exchanges. Then it announced it was far from happy with the current state of the takeover code.

The creation of a United Exchange has been mooted several times, but vested interests buried in the individualism of the present quartet have always blocked suggested change. But it now seems that Mr. Uisdein McInnes, the Commissioner for Securities, and effectively the spokesman for the Government, is determined to see unification.

In late May a working party on unification, chaired by Mr. McInnes, set out the plans for merger. It proposed the formation of a new company called the Stock Exchange of Hong Kong Ltd., whose initial subscribers would be the members of the present four Exchanges.

The Far East Exchange (1979 turnover \$HK 11.75bn), the Hong Kong Exchange (\$HK 5.61bn), the Kam Ngan Exchange (\$HK 8.22bn) and the Kowloon Exchange (\$HK 614.2m).

The new company will initially look for new premises to create a single trading floor and he responsible for accepting members. It sounds straightforward, but opposition continues.

The Government evidently sees good reasons for reform. First, it will be easier to monitor the activities of a single Exchange. This will not only make the Exchange operations more efficient, but will reduce the gambling element which is so disruptive to prices, and so

damaging to international respectability.

A new member would have to show he can maintain HK\$ 1m in net assets, with bank overdrafts recognised as asset backing. The hostility to this proposal stems from the smaller brokers, often family firms that have been almost dominant on the side of the smaller of the four present Exchanges.

Not unnaturally, opposition continues. According to rough estimates, about 450 brokers would be excluded from the new Exchange.

Mr. McInnes is currently treading everyone with kid gloves, but there is a mailed fist inside if he needs it. He knows that the reforms are likely to slice away some of the excesses seen on the present Exchanges. He no doubt hopes he can remove the gambling fever from the exchanges and return it to its more rightful place on the racetracks of Sha Tin and Happy Valley.

Grumbling
As he told a meeting of grumbling voices soon after the proposals were announced: "the minimum capital requirement... is small enough so that small-to-medium brokers of long standing repute will be able to continue. If a broker cannot show a net worth of \$1m perhaps he should not be in the broking business."

The merger proposals, expected to be introduced into the Hong Kong legislative council this month, provide for the Government to nominate a single person to take full charge of unification if a transition committee currently meeting and comprising two representatives from each exchange does not do the job asked of it.

Meanwhile, down in the tea houses the Chinese brokers hunched over marble tables are still reeling from Mr. McInnes' second onslaught against them — a proposal to change the colony's takeover code.

The present rules are to say the trigger point for a full bid must come when a bidder has 50 per cent of the shares of a company.

Only two weeks ago, an example of how the present takeover rules can be exploited rocked the stock market. Hong Kong Land, the colony's largest property company, unveiled a share offer intended to boost its stake in the fast-growing Hongkong and Kowloon Wharf and Godown Company from 20 per cent to 49 per cent — at a cost of around HK\$3bn.

The move is widely seen as an attempted counter to shipping magnate Sir Yue-Kong Fao, who owns 30 per cent of Wharf's shares through a subsidiary company.

It illustrates the shortcomings of the takeover legislation in two ways. First, it implicitly acknowledges that Sir Y. K. Fao had won effective control of Wharf through ownership of a 30 per cent stake; and second, that by limiting their purchase plans to 49 per cent of Wharf, Hong Kong Land itself usurps control without resort to a formal bid, and without being answerable to the company's remaining shareholders.

The authorities want to move the trigger down to 30 per cent, but over 300 stockbrokers have expressed opposition. In their ranks are powerful names like Wardley Limited, the merchant banking arm of the local Hongkong and Shanghai Banking Corporation, Sun Hung Kai Securities Limited, which is the largest local broking company, and one of the biggest overseas brokers, Vickers da Costa.

Opponents argue that the move will plunge the Securities Commission into vast investigations into the particularly labyrinthine webs of Chinese family crossholdings.

But there is another deft argument: that turnover in the Hong Kong markets is stimulated by rumours and the new measure would reduce the credence of them in the future.

Hong Kong, a fickle market at the best of times, is rife with rumour on any day. The tales fly particularly thick and fast on quiet days and not a few onlookers wonder whether these hints of possible bids and deals begin in the tea houses of the western district, which team with hundreds of small investors, or whether they start on dealing room desks in the

central business district tower blocks.

Mr. McInnes looks set to tread more slowly in this area than on unification. There might be a compromise, at say a 40 per cent trigger, but some would like stronger action.

Through a quiet summer the market has been moving in large uncertain swings. The Hang Seng index one day falling about 20 points, on another rising by much the same amount as the market gropes uncertainly through these rumours, United States economic recession stories and local economic statistics.

There is a feeling among market analysts that the trend is downward in the second half of 1980, but again all eyes are on the Government, this time on Financial Secretary Mr. Philip Haddon-Cave.

In the second half of this year he will be assailed by two competing desires, one a wish to bring inflation out of the economy with traditional "moral suasion" on the banks to keep interest rates high, and the other to lower interest rates to take pressure off exporters both through lower interest rate costs

and a likely weakening of the local currency against its U.S. counterpart.

If, as is expected, U.S. prime rates continue to fall, he will have to make up his mind soon and it will be a difficult decision indeed in an economy where exporting is the very life blood.

Sun Hung Kai thinks it will be the attack on inflation that gains the upper hand. Their analysts said in a recent report: "The Government's determination to control domestic credit expansion and inflation leads us to believe that policy will tend towards continued stringency and we expect to see U.S. interest rates fall faster than those in Hong Kong as the year progresses."

"When the growth in the monetary aggregates is curbed, however, and activity is responding to a poorer external trading environment, local rates will probably move more rapidly to lower ground."

In market terms however, investors may by then be too preoccupied with pondering the impact of recession to rejoice over lower borrowing costs.

Jack Walton

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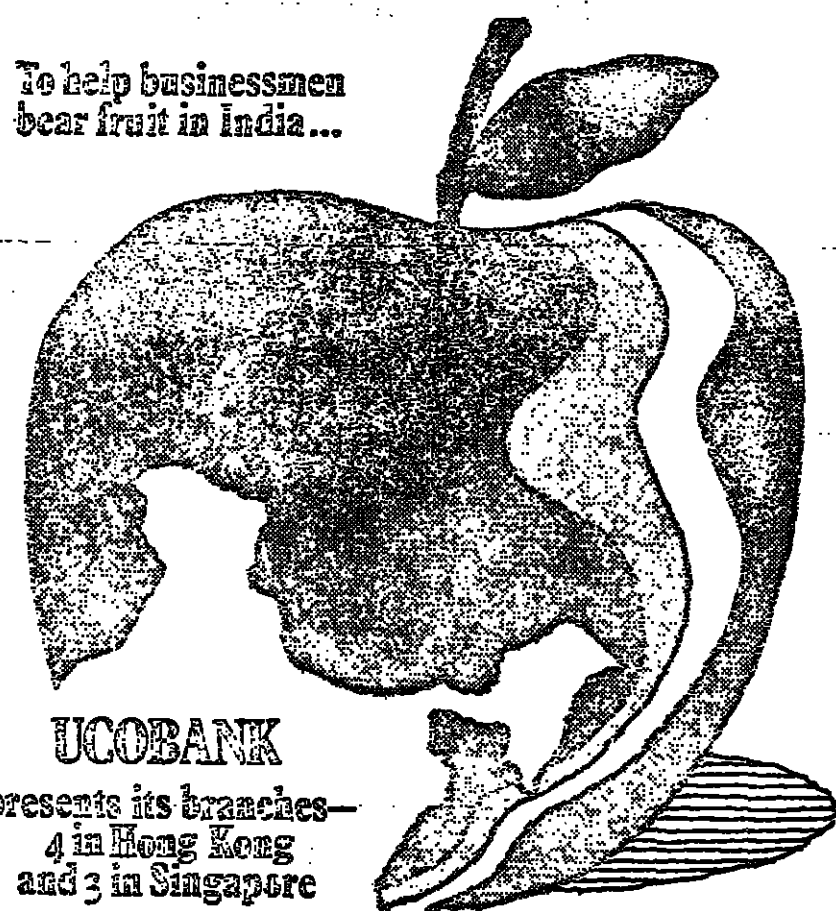
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Public sector demand spurs on inflation

SIR PHILIP HADDON-CAVE, Hong Kong's Financial Secretary, opted for an expansionary budget this year at a time when he has been widely expected to give it a deflationary bias.

Inflation is gaining ground in Hong Kong and Sir Philip makes no bones about the fact that it is chiefly public sector demand which is fuelling that inflation.

Yet he chose not to curb public spending — one of the few areas of the economy over which the Government has any direct control — but to let it expand rapidly. In particular, he opted for a major increase in public construction, an area which has a telling impact on wages and import levels.

In the light of inflation and of Hong Kong's repeatedly large deficit on visible trade this might have appeared rash had it not been for certain extenuating circumstances.

First, the huge influx of refugees from China and Vietnam over the past couple of years, while on the one hand rapidly boosting the population and creating pressures for increased public spending, has tended on the other hand to dampen wage inflation, particularly in the building sector.

Second, the existence of fat budgetary surpluses, arising largely from Government land sales to the booming property sector, apparently convinced the

Financial Secretary to spend now before mounting inflation erodes the value of those surpluses.

Inflation ran out at 11.7 per cent in 1979 on the basis of the official consumer price index (CPI) and 13.3 per cent on the broader based gross domestic product (GDP) deflator, but the rate was probably nearer 20 per cent if the soaring cost of residential accommodation had been fully reflected. This year inflation is running at a rate approaching 20 per cent even on the basis of the CPI.

As the Financial Secretary had previously admitted that the public sector was the chief culprit behind the domestic demand which is fuelling inflation, and as the authorities lack all but the most rudimentary weapons for controlling private demand, cuts in public spending seemed the most obvious measure for dealing with inflation and import demand.

But they were not to materialise. The Financial Secretary said that "despite our efforts in 1979-80 to slow down the growth rate of public expenditure," the "extraordinary demands" on the capital account (inflationary cost rises which overrode cash-limit buffers) had resulted in the relative share of available resources absorbed by the public sector rising to 13.5 per cent in 1979-80.

The capital account, at HK\$5.15bn (\$1.04bn), was some 27 per cent overspent during the year and the current account, at HK\$8.08bn, was some 9 per cent overspent, largely owing to public-sector pay rises.

Far from cutting back on capital spending in 1980-81, the Financial Secretary announced that this provision would rise by 42 per cent to HK\$7.3bn. This included HK\$1.5bn for the public works programme (other than new towns and housing), HK\$1.54bn for new towns and housing, HK\$441m for land acquisition, and HK\$1.83bn for the Development Loan Fund for the Housing Authority.

For the moment, budgetary surpluses and reserves provide a safety net. The surplus for 1979-80 is estimated at HK\$2.32bn — the highest on record in absolute terms and larger than budgeted for the third year running.

For next year (1980-81), the Financial Secretary is budgeting for an even larger surplus of HK\$3.4bn on the general revenue account. This should raise "free" fiscal reserves (those not committed to contingent liabilities) to some HK\$8.6bn by April next year, thus providing, the Financial Secretary said, "a most comforting degree of security in

these most uncertain times."

But in virtually the same breath he warned that "we need to ensure that we do not get ourselves locked into a level of expenditure on capital account which will not be sustainable as, and when, the level of capital revenue settles down and the financing of capital expenditure is again largely dependent on the surplus on recurrent account."

The reasons why the Government is enjoying a boom in revenues — on capital and current account — just now, which is more than offsetting over-spending, is not far to seek.

Land sales are the prime cause. Capital revenues were 38 per cent ahead (HK\$924m) ahead of budget in 1979-80, with premiums from land transactions rising 45 per cent (HK\$388m).

Revenues

Capital revenues are expected to rise in 1980-81 by what even the Financial Secretary called the "staggering" figure of 99 per cent over estimates for the previous year to HK\$6.63bn. Land transactions will bring in all but some of HK\$400m of this revenue.

These figures did not sit too well in a budget which was widely expected to come firmly to grips with inflation, particularly as the price of land is held to be a significant factor in the spiralling cost of residential and commercial premises. But they explain why the Financial Secretary can bow to pressures now for more capital spending while pointing to dangers ahead if it is maintained at these boosted levels.

Recurrent revenues are also "flushing," as Sir Philip put it, which further explains the prodigious surpluses being achieved and budgeted for.

Recurrent revenues rose 15 per cent over estimate to HK\$13.2bn in 1979-80, pushed up mainly by earnings and profits taxes from a property and banking sector which was "more buoyant than could reasonably be assumed" when the estimates were prepared.

In 1980-81, they are expected to rise a further 12 per cent over the previous year's estimates to HK\$14.9 bn, with earnings and profits taxes, which now account for nearly half of these recurrent revenues, again being the main factor.

Thus no matter how much the Government may profess to be concerned about inflation, and to see socially undesirable aspects in the property boom, it is reaping a rich tax harvest from these twin booms.

But it is one which, as the Financial Secretary observed,

CONTINUED ON NEXT PAGE



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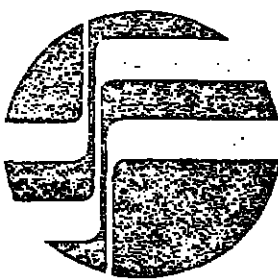
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HONG KONG VII

Competition for international finance will become hotter

HONG KONG and Singapore both took steps early this year to try to ensure supremacy as Asia's leading international financial centre, and the chances are that competition between the two city-states for the leading financial role will not be up considerably.

In the case of Hong Kong, there was an important departure in April and May, when Hong Kong banks began issuing Certificates of Deposits (CDS) denominated in U.S. dollars. This meant that the colony, already the leader in loan syndication for the Asian dollar market, was also about to challenge Singapore on the funding side.

Earlier, Singapore had announced it was admitting a firm of London-based financial lawyers to practice in the country. This move, a reversal of traditional policy in the face of strong protests by local lawyers, was a sign of the Government's determination to make sure that Hong Kong did not have the lucrative loan syndication business entirely to itself.

The banks and their lawyers were chiefly instrumental in working out a formula to issue dollar CDS without attracting the 15 per cent withholding tax which Hong Kong levies on interest. The European Asian Bank and the law firm of Deacons drew up the drafts, but throughout there were discussions with the Hong Kong authorities to try to get assurances that the formula would avoid the tax.

Issuing of the first dollar CDS came only a few months after an official report on diversification drew attention to the shortcomings of Hong Kong as a financial centre. The report singled out the need to keep Hong Kong money in the colony and to attract funds from abroad. A full range of short-term and medium-term financial instruments is also lacking.

Larger role

The report, produced by a committee under the chairmanship of Sir Philip Haddon-Cave, the financial secretary, urged the authorities to play a larger role in encouraging the development and standing of Hong Kong as an international financial centre.

The Government has already stepped up its intervention, moving away from the pure laissez-faire that was supposedly the hallmark of Hong Kong's success. In 1978 it liberalised banking licenses to allow 41 new banks into the colony, then declared another moratorium.

It is playing a major part in the merger of the colony's four stock exchanges into one more powerful financial institution. And it is intervening to regulate the insurance industry and ensure "continuous prudential supervision aimed at protecting policy holders."

Most of the prevailing wisdom in the colony is that it is good for Hong Kong to be an international centre for banking and finance, and that it is inevitable that the Government will have to exercise a heavier guiding hand. However, there are voices of dissent.

One scathing view to be heard

in Singapore is that in some of its financial activities, Hong Kong is "little better than a gambling den." But in Hong Kong, some officials argue that the best profits come from the traditional financing of industry and trade and that the margin on being a financial centre is too small.

The head of one of the big banks in Hong Kong pointed out that the most profitable banks in the colony have a strong local deposit base, financing industry and trade. (This is also true in Singapore. Here, the Overseas-Chinese Banking Corporation, which has a reputation for being conservative and concentrates on local business, has shown the best growth.)

The official report into Hong Kong's diversification outlined complementary growth of the banks and industry. "Although in Hong Kong most bank loans to industry are technically short-term, they are generally not called in and thus, in effect, serve to provide long-term finance."

Indeed, had the banks here followed this precept, Hong Kong's industrialisation would have been severely hampered. Loans were provided for working capital and also for purchasing such fixed assets as plant and machinery. As the export-oriented industries became established, the banking sector in turn benefited from increased business opportunities.

The banker thought it unlikely that many of the newcoming banks, even the biggest international names, would be making money in Hong Kong. Limited to a single branch, without a local affiliate or deposit base, such banks have to tap the interbank market for funds and the margin between borrowing and lending funds is small, about 1 per cent. An international "name" bank dealing with \$200m a year would, therefore, make \$2m, which is not enough to pay for the high office rents and salaries in Hong Kong.

However, the Government is convinced that Hong Kong's role as a financial centre is an important one. The diversification report commented: "Although the structure of Hong Kong's financial markets is still developing and has not yet reached the sophistication of London and New York, the emergence of Hong Kong as a major regional, if not international, financial centre is second in importance only to its industrialisation."

As a contributor to Gross Domestic Product, "financing, insurance, real estate and business services" together come to 21 per cent—less than manufacturing, 25 per cent, and wholesale and retail trade and restaurants and hotels, 23 per cent.

In terms of the range of its financial services, Hong Kong is well diversified. The colony has 115 banks and more than 100 branches including practically all of the big international names, as well as the Bank of China. It has four stock exchanges, more than 200 insurance companies, a well-developed foreign exchange market, one of the world's big four gold markets, a commodity

exchange, numerous other financial services, such as legal firms specialising in loan syndication, and good telex, telephone and other communication facilities.

But though most of the facilities exist, in many cases they are not fully developed. While the diversification report urged that Hong Kong should attract funds from outside the colony, some bankers noted that there is not much of a margin for Hong Kong in collecting funds unless they are used productively within the colony.

Rights issues

The Hong Kong stock market, for all the diversity of four exchanges, has major weaknesses and would not be specially attractive to a foreign investor.

Between 1974 and 1980 there were only four new companies listed. Rights issues were not very popular. Even during the 1973 share boom, when there were 53 public offers and 48 share placements brought to the market, the flotations were not so much an attempt to tap new capital as an attempt to profit from the high valuation the public was then placing on corporate stock.

All in all, the diversification committee estimated that "it is doubtful whether more than 20 companies are large enough to be considered of interest to international investors." The shares of two companies, the Hongkong and Shanghai Bank and its subsidiary the Hang Seng Bank, accounted for a fifth of the market by value at the end of 1978. The 12 largest companies accounted for 54 per cent, and the 88 companies with a capitalisation of at least HK\$ 100m accounted for 92.6 per cent of total market capitalisation, leaving the remaining 154 quoted companies to make up a mere 7.4 per cent of the market capital.

Hong Kong's family-owned companies have shown a marked reluctance to do anything that might lead to a loss of control. Indeed, although manufacturing has been the big growth area in the colony, less than 7 per cent of listed shares are in manufacturing concerns. Insurance is another area where there is still a long way to go. Companies in Hong Kong have not acted significantly as financial intermediaries in the sense of channelling medium-term or long-term contractual savings funds as loans and investments to other businesses in Hong Kong.

There are two major reasons for this. First, many insurance concerns remit their premiums abroad; and second, the main source of medium- to long-term contractual funds is life insurance, which is not very developed in the colony since the Chinese extended family ties play the role that insurance would elsewhere.

One of the important areas of opportunity that Hong Kong sees is in China's development. Financial institutions and authorities believe that the colony has a big role to play not only as an entrepot trading centre for China, but also as an entrepot financial centre. Japanese companies and banks may negotiate directly

with China, but for those from other countries, Hong Kong has a good opportunity of serving as the best base.

Another potentially important area is international reinsurance, which is why the Government is keen to establish minimum prudential regulations. The official committee on diversification thought that Hong Kong "has a number of attributes which are desirable from the point of view of setting up an international reinsurance centre."

These include a lack of current Government direction of insurance trading activities and currency movements, a fair legal system, a well-developed range of commercial and professional services, and a broadly-based financial services sector.

Proponents of Hong Kong's role as an international financial centre have expressed concern about Singapore's increasing determination to be Asia's big financial centre. The removal of exchange controls in Singapore and the launching of primary and secondary markets in fixed and floating rate dollar CDS are two recent developments which may allow Singapore to become more important in medium-term Asian dollars, as well as in the short-term finance on which it has hitherto concentrated.

Determined

The diversification committee, while regarding Hong Kong's financial infrastructure and its trading links as better developed than Singapore's, sounded a warning note: "Although Singapore has been looked upon as more complementary than competitive in relation to Hong Kong in the operation of offshore financial business in the region, the recent trend suggests that Singapore is even more determined to play an important role in this area than before."

The committee pointed to five areas of concern for Hong Kong: the availability of long-term finance; the need for improved channels of communication on matters relating to the financial services sector; inadequate statistical documentation of the financial services sector; the gaps in the Hong Kong money market as regards fixed-interest finance and the provision of a full range of short- and medium-term financial instruments; and the need for more effective regulation of insurance businesses.

There is now speculation as to whether the Government will lift the 15 per cent withholding tax to signal its full-blooded belief in the colony's quest for the role of Asia's premier financial centre.

The diversification committee commented: "Because of its relatively low revenue yield (HK\$118m in 1978-79, or less than 1 per cent of total revenue) and because of the fact that Singapore no longer has a withholding tax on interest, we recommend that the Government reconsider the implications of interest withholding tax on the willingness of those with savings and investment funds to leave them in Hong Kong."

Kevin Rafferty

Budget

CONTINUED FROM PREVIOUS PAGE

it would be unwise to use as a basis for gearing up the long-term spending commitment of the economy, on capital and recurrent account.

Those expecting a redistribution of taxes, particularly as a means of dampening property speculation, received only an oblique assurance that tax changes did not necessarily have to be made at the time of the budget.

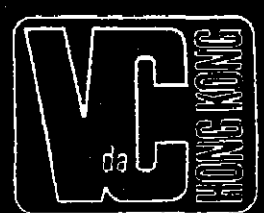
What tax measures he did implement were confined to cuts in personal taxation, which it is estimated cost the Government some HK\$246m in revenues in 1979-81, and affected about 350,000 private taxpayers.

The Financial Secretary reported that the growth rate of the GDP in real terms in 1979-80 was 11.5 per cent, against his forecast of 13 per cent, and forecast a growth of 9 per cent for 1980-81. Growth in output per capita was slowing however, because of the influx of refugees into Hong Kong.

Should immigration continue at present levels, the average annual growth rate of the population would double from the 2 per cent envisaged over the next few years, with a consequent decline in per capita GDP growth, and there would be "an inevitable decline in the growth of the social wage received by the poorer sections of the community and an inevitable strain on infrastructural facilities."

However, Sir Philip admitted that the unexpectedly rapid increase in the supply of labour because of immigration had helped manufacturers meet an increased demand for exports last year.

Anthony Rowley



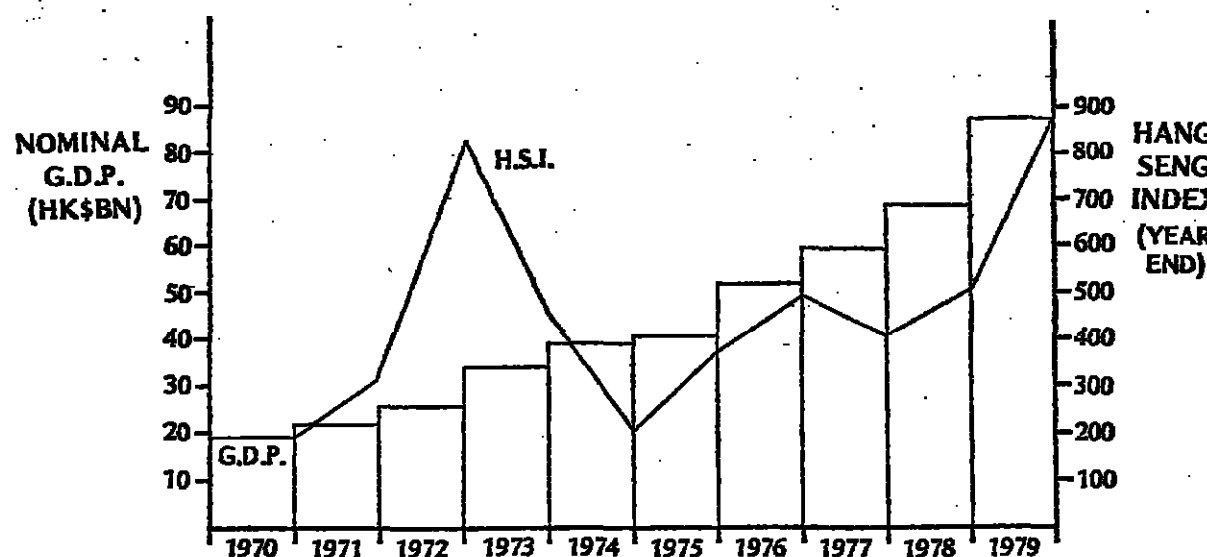
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(G.B. ENDACOTT: 'A History of Hong Kong')

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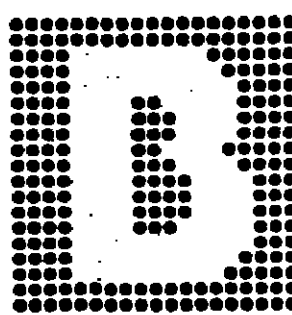


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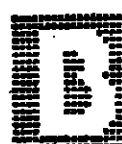
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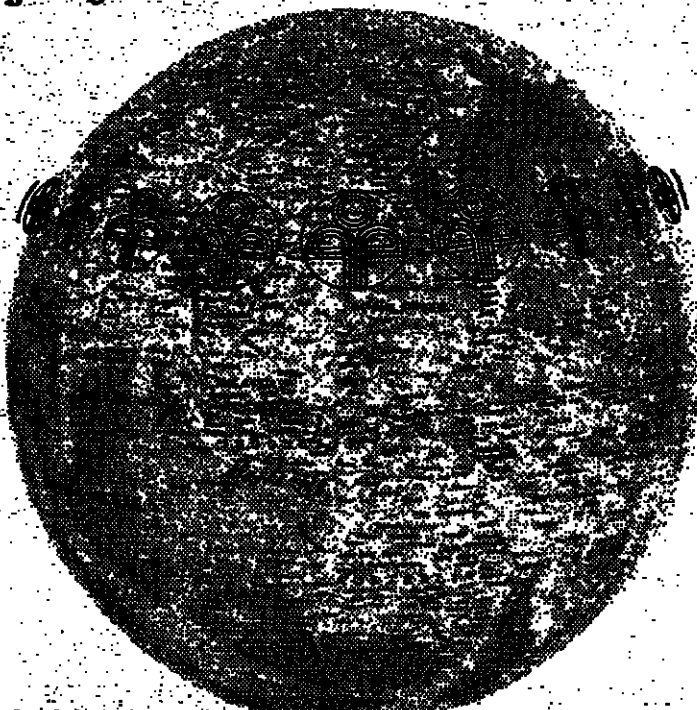
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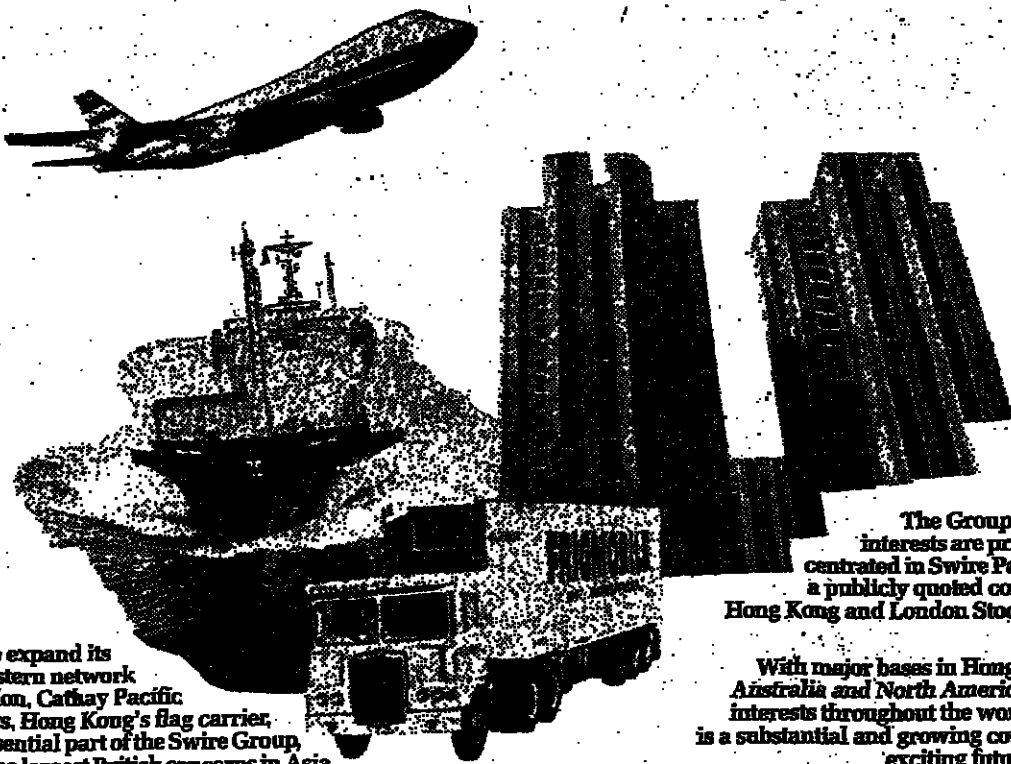
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The Swire Group

HONG KONG VIII

Record leap in exports defies cautious growth forecasts

NOT MUCH larger than the Isle of Wight in area and with a population estimated at some 3.5 million, this tiny British colony last year had a total external trade one and a half times that of India, and greater than that of China itself.

In what turned out to be one of the most impressive trade growth performances of the decade, 1979 saw Hong Kong continue to outpace the army of trade restrictions thrown at its dearest industry—textiles and garments. At the same time the colony further broadened its export base as the trend towards product diversification continued. Perhaps most notable of all, however, was the highly visible jump in trade with China—a development which many believe will contribute handsomely to Hong Kong's wealth for some time to come.

Last year the colony increased its total external trade by over 38 per cent—a performance which surprised even the most bullish of Hong Kong's naturally optimistic businessmen. Exports jumped by a record HK\$22bn to HK\$75.9bn in 1979—a growth rate in real terms of some 19.5 per cent.

Raw materials

Imports, a major proportion of which were essential raw materials for the colony's domestic exports, increased by a roughly similar amount, from HK\$63bn to HK\$65.8bn—a growth in real terms of nearly 16 per cent. The HK\$10.5bn deficit on the visible trade balance was effectively covered by a HK\$10bn surplus on invisibles.

Despite what looked like the beginnings of recession in some of the colony's major markets, Hong Kong turned in real export growth nearly double the average for the decade—a result that was exceeded only in 1976, when the colony rocketed out of the world recession which followed the rise in oil prices with an export growth of some 28 per cent in real terms.

This was a remarkable achievement by any standards. At the beginning of 1979, Sir Philip Haddon Cave, the

colony's Financial Secretary—admittedly a man not noted for extravagant forecasts—had budgeted for a real growth rate of 8 per cent in exports, less than half the actual rate.

Even our traditional junkies have engines now" was how one trade official proudly explained. Hong Kong's ability to ride out the storms of international trade and come out the other side full steam ahead. Perhaps the colony's greatest strength is this ability to react fast and flexibly to changing world trade patterns and economic conditions. Its admirers say this is a laissez-faire economy that has taken more than just a chapter out of Adam Smith's book, *The Wealth of Nations*.

With virtually no natural resources of its own, Hong Kong has become in the space of three decades the world's largest exporter of finished garments, electronic watches, plastic toys and binoculars. When wigs were in fashion this British colony made millions of them. Now that they have gone out, manufacturers have switched to furs and leather goods. Perhaps most dramatic of all, in just under four years—and almost from a standing start—Hong Kong has become the world's largest exporter of electronic watches.

Japan, China and the U.S. continued to remain Hong Kong's chief source of imports last year in that order, all recording a growth of over 35 per cent. Britain did well to increase exports to Hong Kong by 46 per cent to maintain its position as the colony's sixth largest source of imports. Britain increased the value of its exports to Hong Kong by HK\$1.4bn to HK\$4.4bn in 1979 to account for just over 5 per cent of the colony's total imports.

Hong Kong's market for domestic exports continued to be dominated by the U.S., which at HK\$ 18.9bn accounted for 24 per cent of total exports. Sales to West Germany, the colony's second major outlet, grew by over 40 per cent from HK\$ 4.4bn to HK\$ 6.4bn in 1979. Exports to Britain, which accounted for just under 11 per cent of the colony's total exports last year, increased by a phenomenal 54 per cent from HK\$ 3.9bn in 1978 to just under HK\$ 6bn last year.

Along with Hong Kong's continuing ability to capitalise on shifts in world demand and the capacity of its economy on the supply side to meet increased demand for its exports, a significant factor in Hong Kong's impressive record in the past couple of years has been growing re-emergence of the colony as an entrepot. As a proportion of total exports the value of Hong Kong's re-exports increased from 19 per cent in 1970 to 24 per cent in 1978 and 28 per cent last year. Re-exports increased by a record HK\$ 7bn last year to HK\$ 20.5bn—a growth of 51 per cent.

China trade

"Last year's trading performance was exceptional. It surpassed even the best of us. Perhaps the most significant jump was in the China trade. Re-exports to China alone grew by HK\$1bn," says Peter Tsao, Commissioner for Trade at the Department of Trade, Industry and Customs.

Though Hong Kong's trade with China is in severe imbalance and is likely to remain so, the benefits to Hong Kong from China's new policies have already been considerable. Total trade with China was up 74 per cent last year to HK\$17bn. This made it Hong Kong's third largest trading partner after the U.S. and Japan.

Domestic exports to China were up over 600 per cent from HK\$81m in 1978 to HK\$803m in 1979, while re-exports to China were up over 500 per cent from HK\$214m in 1978 to HK\$1.3bn last year. At the same time imports from China grew 43 per cent, from HK\$10.5bn in 1978 to HK\$15bn in 1979. The proportion of imports from China which were re-exported increased from 24 per cent in 1970 to 37 per cent in 1979.

But Hong Kong's record trade growth last year is unlikely to be repeated in 1980. With the recession beginning to bite in the U.S. Hong Kong is bound to be affected, though to what extent is still not clear. In his Budget speech in March, Hong Kong's Financial Secretary Sir Philip Haddon Cave predicted a real growth rate in exports for 1980 of 8 per cent, not quite half that achieved in 1979, though only two per cent less than the average for the decade. With the expansion in China's international trade re-export growth is likely to continue at a rapid pace. But the 16 per cent real growth predicted by the Financial Secretary is still half that of the 39 per cent achieved in 1979.

Though many economists expect the recession to begin to bite later in the year, as yet there are few signs that export growth is flagging. Comparing the first four months of this year with the same period last year, exports increased 33.8 per cent to HK\$19.1bn; exports plus re-exports jumped 38.2 per cent to HK\$27.4bn; and the value of re-exports rose 51.5 per cent, largely due to increased trade with China.

Imports for the first four months grew at almost the same rate as exports, climbing 35.8 per cent to HK\$33.7bn from the year before. Hong Kong's trade deficit over the same period remained unchanged at 18.7 per cent, though in value terms the deficit jumped 37 per cent from HK\$4.6bn in January-April 1979 to HK\$6.4bn for the same period this year.

Though invisibles are likely to increase their growth this year, the visible trade deficit in the first third of 1980 is already two-thirds the size of the record HK\$9.9bn deficit notched up for the whole of last year. The situation is hardly ideal but as yet it has given little serious cause for concern.

In its latest economic report, the Hong Kong and Shanghai Banking Corporation says that manufacturers have so far had little to worry about. But the bank expects industrial growth in the second half to be hit by further trade restrictions in major overseas markets, increases in oil prices, endemic domestic inflation and world-wide economic uncertainty. Textile exports have already shown signs of slowing down, though clothing exports have so far performed well in spite of tighter import controls.

Richard Cowper

HONG KONG'S OVERALL MERCHANDISE TRADE

| | 1975 | 1976 | 1977 | 1978 | 1979 | Percentage change '79/'78 |
|------------------|--------------|--------------|--------------|--------------|--------------|---------------------------|
| IMPORTS | 33,472 - 1.9 | 43,293 +29.3 | 43,701 +12.5 | 63,056 +29.5 | 85,537 +36.1 | +151.6 |
| DOMESTIC EXPORTS | 22,859 - 0.2 | 32,628 +42.7 | 35,004 +7.3 | 40,711 +16.3 | 55,912 +37.3 | +114.0 |
| RE-EXPORTS | 6,973 - 2.1 | 3,928 +28.0 | 9,829 +10.1 | 13,197 +34.3 | 20,622 +51.7 | +181.0 |
| TOTAL EXPORTS | 29,832 - 0.7 | 41,557 +39.3 | 44,833 +7.9 | 53,908 +20.2 | 76,534 +40.9 | +152.8 |
| TRADE BALANCE | 3,640 -10.9 | 1,736 -52.3 | 3,868 +122.8 | 9,148 +136.5 | 9,993 +9.3 | +142.4 |

Entrepot role makes a comeback

IN THE 1950s, Hong Kong began to discover and develop manufacturing industry which pushed its traditional role as an entrepot trading centre into the background. But in the past few years the traditional activity has been making a comeback, and has been the fastest-growing area of Hong Kong's trade.

A leap of almost 52 per cent in the value of re-exports last year, to a total of HK\$20.5bn, raised them to 28 per cent of total exports. This was the highest proportion recorded since 1961.

But growth of re-exports in the previous few years had been rapid, if not as startling as in 1979. In 1975, the colony's re-exports were just under HK\$7bn, out of total exports of nearly HK\$30bn. In the following three years, re-exports rose by 28 per cent, 10.1 per cent and 34.3 per cent respectively.

But statistics tell only a fraction of the story behind Hong Kong's re-emergence as a booming entrepot centre. Interviews with exporters and officials reveal fascinating but still only partial details.

The whole story would no doubt cause embarrassment and awkward questions, especially in some neighbouring and regional countries. In many cases perhaps, Hong Kong's favoured position as an entrepot reflects its superior communications, its financial and insurance facilities, its shipping services and its all-round, speedy and efficient management.

But in some instances, the advantage of using Hong Kong is to evade or sidestep local tax requirements or foreign exchange regulations. In others, the Hong Kong Chinese, with their wide regional connections may be able to make more money by manipulating the local customs.

Closer examination of the statistics on re-exports shows at least four distinct types according to the countries of origin of the goods. The biggest contribution to re-exports comes from Chinese goods. In 1979, re-exports of such goods totalled HK\$5.6bn, against total imports from China of HK\$15.1bn. The chief contributor to these re-exports was made-up articles, wholly or chiefly of textile materials, which totalled HK\$726m, and

second on the list was crude vegetable material. Of the top ten items among re-exports originating in China, nine were of textile, fabrics or articles of clothing, together worth HK\$2.25bn.

It is easy to understand how Hong Kong picks up a large part of China's trade: financing, packaging, shipping and even documentation are easier in the Colony than in China. Links between Hong Kong and China have grown, and China's abilities to handle large shipments of goods is much less than Hong Kong's. The Colony is one of the biggest ports in the world and has excellent air communications. It offers in fact just the sort of springboard and communications link with the rest of the world that China itself lacks.

But the question is, whether Hong Kong textiles go out labelled as made in China in an attempt to beat quota restrictions on Hong Kong goods. Manufacturers and officials are quick to deny this, saying that Hong Kong goods have moved up market as quality has improved and labour become more expensive in the colony. Officials also say that anyone caught trying to evade rules of origin would be quickly prosecuted as the colony has its reputation to uphold.

Electronic Re-exports originating in Japan, the second largest group at HK\$3.4bn in 1979, are very different from the Chinese re-exports. Electronic goods and machinery dominate the list, and the top 10 items include watches and clocks, telecommunications equipment, camera and photographic parts, motor-cycles and cars.

Some Hong Kong traders claim that packing and shipping from Hong Kong is so efficient that it pays Japanese manufacturers to send goods to the colony for final packing and distribution. This may be so, but it is also interesting that the biggest customer for Japanese goods re-exported through Hong Kong is Indonesia. Indonesia took Japanese goods worth HK\$692m in 1979, followed by Singapore with HK\$431m worth. There are also advantages for

Japanese companies in exporting through Hong Kong. Setting up a company in the colony may help a Japanese group to avoid the complications of Tokyo foreign exchange regulations. For example, if a scooter worth \$1,000 is made in Japan and ready for sale in Jakarta for say \$1,500, then it may pay to do the deal through a Hong Kong subsidiary, remit the \$1,000 to Japan, and keep the \$500 in Hong Kong in free foreign exchange. Low exchange rates in the colony may give an additional advantage.

Goods originating in the U.S. are the third largest of Hong Kong's re-exports. Pearls, precious and semi-precious stones are the leading category, accounting for HK\$ 409m of the HK\$ 2.29bn total of U.S. goods passing through Hong Kong last year.

Many of these stones found their way back to the U.S. The leading item of re-export to the U.S. consisted of pearls valued at HK\$ 426m—and the main country of origin of these stones was the U.S.

Traders say that what happens is that stones are sent to Hong Kong for sorting and valuation, then those not required by the local industry are shipped back. Other re-exports originating in the U.S. include photographic equipment and medicinal products. American exports passing through the colony are distributed evenly to countries neighbouring Hong Kong, so the colony is being used as a regional distribution base for China, Japan, Korea and South East Asia.

The most interesting climber

in the list of exporting countries supplying goods to Hong Kong for re-export is Taiwan. In 1978, Taiwan shipped goods worth HK\$ 402m, but last year the value of the goods leapt to nearly HK\$ 906m. One reason for the sudden spurt in re-exports originating in Taiwan was that the island's container port was badly damaged during a typhoon. Another is that Taiwanese goods have started to go to mainland China in increasing quantities. According to the Hong Kong statistics, HK\$ 106.5m-worth of Taiwanese goods went to China in 1979, in sharp contrast to the HK\$ 0.3m total listed for 1978.

Penalties Officially, Taiwan has banned trade with China and businessmen face heavy penalties if they are caught, even if they are using Hong Kong as an entrepot. In reality, there has always been trade from China to Taiwan via Hong Kong. Worth some HK\$56m a year, this is mainly vegetable which can be easily branded or spotted to country of origin.

The response of the Hong Kong authorities to the re-emergence of the colony as an entrepot has a touch of ambivalence about it. Some officials are quick to point out that the value added of re-exports is marginal and that therefore undue attention should not be given to them at the expense of Hong Kong's original exports. But increasingly, official comment appears to suggest that the entrepot role can add to the colony's overall financial status and should be encouraged.

Kevin Rafferty

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Bankers debate Government's role in influencing economy

THE BANKING INDUSTRY in Hong Kong has been at the centre of a major debate about the role of the Government in trying to influence the macro-economic situation.

This is not an academic or purely theoretical debate. Indeed, like all debates in Hong Kong, over whether change is needed, it springs entirely from real situations needing immediate attention.

The issue has been the rate of growth of money supply and credit, and their relationship to interest rate levels.

Essentially, the Government has been trying to use moral persuasion to achieve high interest rates to try to stem inflation and domestic demand but has, so far, abjured the use of direct intervention. Supporters claim it has had some success in influencing the banks. Critics claim its impact has been too little, too late.

Concern about the inflationary impact of very rapid increases in domestic credit has, however, had one very direct effect on the environment in which banks in Hong Kong do business.

In August last year, the Government temporarily reimposed a moratorium on the grant of new banking licences. It said that this was to allow a re-examination of the criteria for granting banking licences. But the driving force behind the freeze was a concern that aggressive lending by newly-admitted banks was fueling excessive credit growth.

Banks established before the freeze will be happy to see it continue, but it contradicts the Government's broader aim of encouraging by not impeding the development of financial and other services in Hong Kong. It remains to be seen when the freeze is lifted.

There had been an almost complete moratorium on new banking licences between a banking crisis in 1965 and two years ago, when the Government decided to allow in banks with assets of U.S.\$3bn or more from countries which offered reciprocal arrangements to Hong Kong banks, or would help in trade development.

Between then and the new freeze, 41 licences were issued, bringing the total number of banks in Hong Kong to 115. In most cases the banks granted licences already had a presence through a deposit-taking company or representative office or

both, but preferred the higher status and greater flexibility that a branch could offer. They also hoped that domestic Hong Kong business, though not their main reason for being there, would at least pay the rent.

Despite both the issue of new licences and the imposition of liquidity requirements on deposit-taking companies, there was no let up in the number of DTCs, which rose from 239 in January, 1979, to 272 a year later. There was also an increase in bank representative offices, which now number 115.

Campaign

The Government first publicly expressed anxiety about the rate of growth of credit back in October, 1978, and actively campaigned for increases in interest rates. Its enthusiasm for a credit squeeze waned after a run at the end of 1978 on Sun Hung Kai Finance, one of the largest indigenous finance companies, and an associate of Paribas. Nonetheless, in the 1979 Budget it tried to reduce the impact of its own budget surpluses on the bank's deposit base by treating them as short-term inter-bank claims requiring liquid asset backing.

However, neither this, nor successive increases in interest rates, which took the prime lending rate to 14.5 per cent in August, 1979, apparently did much to stem lending.

In fact, with the economy growing faster than expected, fuelled by export demand and an influx of migrants from China, the credit increases were not as inflationary as they would otherwise have been. Nevertheless, the Government continued to make noises to the effect that direct controls might be necessary if the banks did not show more restraint.

It is still not clear how seriously direct controls, either in the form of a "corset" or changes in the definition of eligible liquid assets, were considered, or to what extent this was just talk aimed at frightening the banks is not clear.

The question of money and credit became murky because of the unreliability of the evidence.

At the end of last year the Government introduced new definitions of M1 and M2 to net out the transactions between banks and deposit-taking companies—figures for the latter having only just become available.



The central area of Hong Kong Island, home of the business and banking community

These showed that M1 had grown only 4 per cent in the previous 12 months and M2 by only 13 per cent, way below old definition. That looked like a victory for those who had all along claimed that the great money supply debate was a lot of fuss about nothing.

On the other hand, there was no doubt the M1 and M2 changes could not disguise the fact that M3 (which includes deposit-taking companies) rose by 29 per cent.

Nor could there be any doubt that total credit to the economy—loans and advances of both banks and deposit-taking companies—grew by 34 per cent.

The Government defended the situation by saying that M3 growth was only slightly ahead of nominal GDP growth. However, critics said this was a foolish argument because it was the money growth which was fuelling the high rates of nominal GDP growth reflected in double digit inflation.

A quite separate argument also developed over who was to blame for credit increases.

At one point a Government official singled out foreign banks, saying their lending had

been growing much faster than the domestic banks, who had proved more responsive to Government calls for restraint.

The foreign banks hit back by claiming the statistics were misleading because many loans made to Hong Kong customers were, in fact, for use outside Hong Kong.

This argument appeared rather dubious when a Government survey showed that only about 10 per cent of loans were used outside Hong Kong. Nor did it take account of the reverse situation—loans made outside Hong Kong but used inside it.

What was not in doubt, as bank annual reports for 1979 have shown, was a very sharp increase in total assets for many local banks not matched by lending growth.

Inter-bank liabilities more than doubled during 1979 from HK\$7.7bn to HK\$17.6bn. Bank liabilities to deposit-taking companies grew even more rapidly—from HK\$6.5bn to HK\$20.0bn.

Two trends were evident. High liquidity made it very difficult for the local banks to squeeze the foreign banks—which mostly have inadequate

local deposit bases—in the inter-bank market.

This phenomenon had been widespread the previous year when inter-bank rates were often higher than prime rate, an uncomfortable situation for the foreigners which led to howls of protest—most publicly from Citibank—and demands that the Government should intervene and break the local cartel.

Credit growth

Recently it has been the local banks who have been complaining. They say that by responding to the Government's appeal to cut credit growth they have lost market share and seen their profits held down as they have kept funds in the inter-bank market rather than lending them out.

Foreign banks have also been more aggressive in bypassing the inter-bank market in their search for funds. There has been a rapid growth of the dollar CD issues. And Citibank broke new ground with issue of small denomination bankers' acceptances which for technical (and probably temporary)

reasons have the advantage of being free of interest tax.

Not that the local banks can complain about profitability. Most reported increases of 30 per cent to 40 per cent last year and probably more if account is taken of increased transfers to inner reserves.

The second noticeable trend on the banking scene over the past year has been the increased role of deposit-taking companies. Their status seems to have been enhanced since they have been subjected to prudential supervision, and faced liquidity requirements. Being outside the scope of the interest rate agreement of the Exchange Banks' Association they have been able to bid competitively for funds. They have thus been of particular use to foreign banks with inadequate deposit bases.

Their deposits (other than from banks) increased dramatically from HK\$10.4bn at end-1978 to HK\$24.5bn by March, 1980. At the same time, the net amounts owed to them by banks in Hong Kong rose from

HK\$0.5bn at end 1978 to HK\$8.6bn a year later.

The Government remains aware that it does have some responsibility for ensuring a stable domestic monetary environment. The question is how to achieve that in the absence of the mechanisms available in other countries.

The answer it seems to have come up with is to increase its own powers of persuasion. The Financial Secretary, Sir Philip Haddon-Cave, has proposed that the Exchange Banks' Association be given statutory incorporation, that all banks be required to join it, and be required to abide by the decisions of its interest rate committee, whose composition would be broadened. He also wants to see the deposit-taking companies acquire a similar organisation.

In his February Budget speech, Sir Philip stated clearly that it was "questionable whether the terms of the present interest rate agreement, together with the absence of any form of control over the rates that may be offered by deposit-taking companies, are suited to present day needs and circumstances."

Clearly, what is in store is a more formal cartel arrangement over which the Government would have more influence than at present.

But the Government clearly faces a dilemma on the degree of its responsibility in the monetary field. A similar dilemma seems to face it with deposit-taking companies. When DTCs were first formally permitted they were only allowed to accept deposits of upwards of HK\$50,000 on the grounds that persons with assets of that amount should be free to lose it.

However, the Government has now submitted the DTCs to direct prudential supervision, imposing liquidity and other requirements similar to banks. Thus it is taking some responsibility for protecting depositors against failure, such as that of the Hong Kong DTC subsidiary of the Australian-based Nugan Hand group.

The Nugan Hand affair has also raised the question of whether bank representative offices should be supervised. Following the failure of Nugan Hand Bank of Cayman Islands to repay some Hong Kong depositors who had made deposits through the Hong Kong representative office, the Banking Commissioner said he would be requiring details of the operations of representative

offices. The Nugan Hand affair has not damaged Hong Kong. But it has raised questions about the need for supervision and the relationship between onshore and offshore, whether the distinction between onshore and offshore activity has much relevance in Hong Kong's situation and in the age of the telex.

There was nothing very unusual about Nugan Hand collecting deposits for placement offshore. Large banks, local and foreign, in Hong Kong routinely offer deposit facilities in tax-free locations such as Vila, New Hebrides, including in Hong Kong dollars. As the bookwork is often done in Hong Kong there is no inconvenience for the customer.

The Government will tighten up on reporting requirements in respect of these activities, at least in relation to Hong Kong incorporated banks and DTCs in accordance with international agreements reached under the auspices of the Bank for International Settlements.

No change

But there will be no change in policy. Legislation is also likely later this year generally to tighten up Hong Kong's banking Ordinance to make it more suited to the computer and telex age.

Minimum capital requirements will be increased, and perhaps made to relate directly to deposits. Banks will be required to consolidate subsidiaries for supervisory purposes (they have to already for companies Act purposes).

Hong Kong's Banking Commissioner also now acknowledges—to use his own words—that "the supervision of overseas branches of a deposit-taking institution rests with the appropriate authorities in its home country on the grounds that the assets and liabilities of a branch are not legally distinguishable from the assets and liabilities of the institution as a whole."

The Government will, as a result, acquire powers to obtain information about the overseas activities of locally incorporated banks and DTCs.

This is not a significant departure from Hong Kong's hands-off approach. But it is a recognition that freedoms also carry responsibilities if Hong Kong is to continue its progress towards being a mature financial centre.

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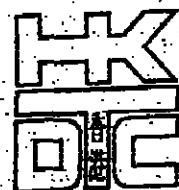
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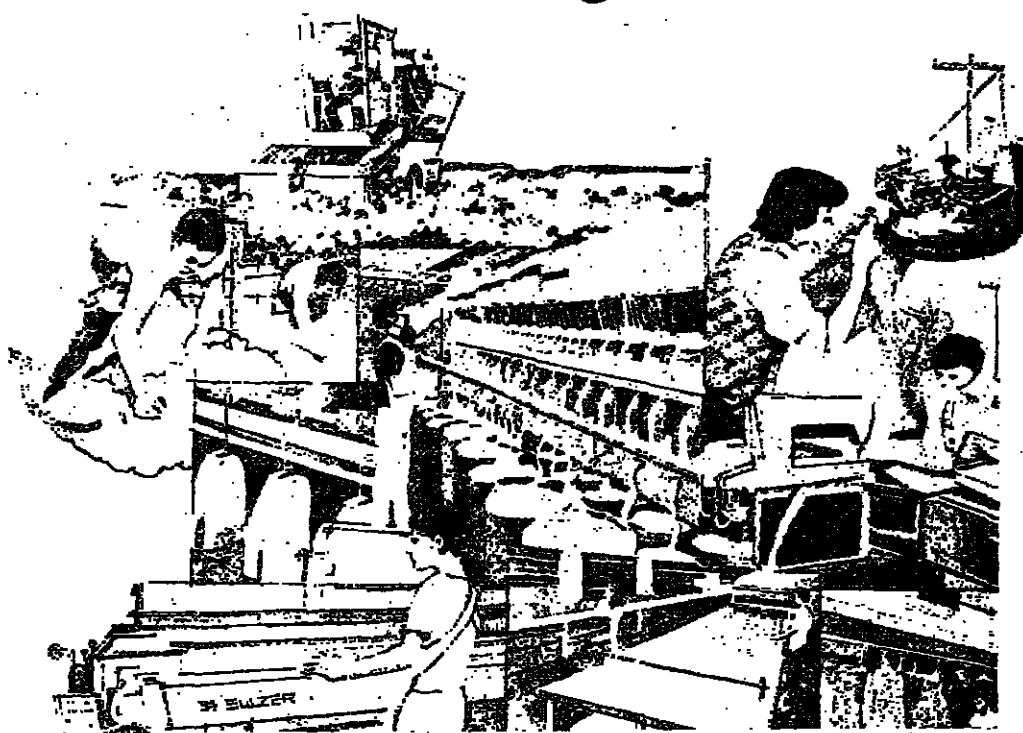
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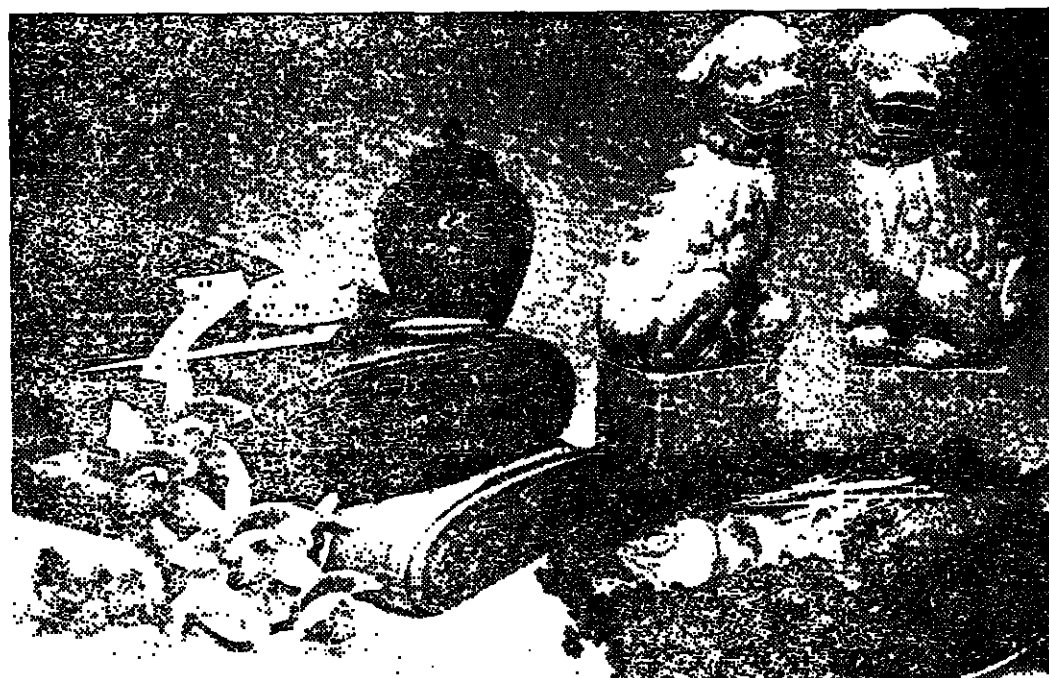
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A recent report urged the Government to adopt a more positive stance towards industrial diversification. It represents a strong challenge to Hong Kong's tradition of laissez-faire policy, as Anthony Rowley reports.

Industry: a clear case for action

HONG KONG'S financial and services sectors may have prospered under a policy of benign neglect by the Government but the official hands-off attitude towards manufacturing industry has caused this sector to decline relative to the rest of the economy, and to become narrowly based and unsophisticated.

This was the picture that emerged from the report of the official Advisory Committee on Diversification published last November.

During its two years of deliberations, the 16-man committee, chaired by Sir Philip Haddon-Cave, Financial Secretary, looked at the need for official support in diversifying various sectors of Hong Kong's economy. But nowhere did it make the need for official action more clear than in the case of manufacturing industry.

"We have found that the serious inadequacy of industrial support facilities and of technical back-up facilities, as well as the absence of a programme of applied research have limited the speed with which manufacturers have been able to diversify," said the committee in its report.

The report has been formally adopted by the Government but not yet acted upon to any significant extent.

The need for industrial diversification was evident enough from the committee's findings. Not only did Hong Kong's manufacturing sector decline during the 1970s in its relative contribution to gross domestic product—while finance and other services grew in relative as well as absolute size—but it also became increasingly narrow-based.

This can be deduced from export figures which show that the share of three main product groups—textiles and clothing, electronic products and toys and plastics—rose from 57.3 per cent in 1961 to 67.1 per cent in 1978.

As relatively few products are retained for domestic consumption, what is true of exports is broadly true of manufacturing output as a whole.

Given the relatively small size of Hong Kong's economy and the "severe constraints" particularly the high costs and the limited supply of industrial land, under which the colony's manufacturers have had to operate, the tendency to specialise on a limited range of product groups was inevitable, the committee concluded.

But the dangers of narrow specialisation are becoming increasingly apparent. Hong Kong is having a tough battle with developed countries to maintain access to their markets for textiles and garments and what looks like being a much more restrictive Multi-Fibre Arrangement is being drawn up to regulate international trade in such items.

Electronic consumer products too are becoming increasingly subject to protectionism, while a number of leading toy makers in the West have gone to the wall in recent years, something which is certain to increase pressure for job protection against imports.

Support

Hong Kong's tendency to become increasingly dependent upon a few manufactured products contrasts quite strongly with the experience of the three other newly industrialising countries in Asia—South Korea, Taiwan and Singapore.

The committee visited only one of these three competitor countries—South Korea—but it noted that all three had provided numerous institutional support facilities to their industries.

Unlike Hong Kong, the other newly industrialising countries in the region, and even those which have not yet aspired to their ranks, such as Malaysia, Thailand and Indonesia, all have a conscious strategy for industrial development.

Until recently, the Hong Kong Government refused to acknowledge a need for industrial planning until it was virtually pushed into doing so by pressure from Chinese manufacturers and from the swelling ranks of Chinese endowed with secondary and tertiary education looking for a more sophisticated economy in which to find employment.

The Government will be forced to adopt more positive strategies towards industrial diversification if it is going to meet its own growth targets between now and 1982. These targets, set both by the Financial Secretary and by Sir Murray MacLehose, the Governor, aim for economic growth of at least 9 per cent a year in real terms over the next three years.

Doubting that growth of this magnitude could be achieved from further expansion of the tertiary sector (which includes the areas of financial services and tourism on which Hong Kong is significantly dependent), the committee urged the Government to take various measures to stimulate industrial development.

Only by more investment in plant and machinery could industries hope to diversify into new product areas and the level of real wages be raised, it argued.

To make this possible, the committee called for an increase in the supply of industrial land—something which is almost totally dependent upon the rate at which the Government is prepared to auction Crown land or to make available new industrial estates.

It also urged the Government to keep in mind the "possible need for an industrial development bank" in Hong Kong in the future, and to introduce additional schemes for industrial training, to be financed from public funds.

"What Hong Kong's manufacturing industries need is an adequate range of industrial support facilities and technical

back-up services, as well as a programme of applied research. Although virtually all manufacturing firms in Hong Kong are likely to make use of such facilities and services, the extensive use of metals by manufacturers, the relatively under developed state of the metalworking and metal-finishing industries, and the growing importance of the electronics industry suggest that these industries should be prime targets for the initial provisions of industrial support facilities and technical back-up services.

Need underlined

"The need is underlined by the fact that Hong Kong's competitors have already provided, to a greater or lesser degree, such facilities for their domestic industries," the committee said, again taking its cue from South Korea, Taiwan and Singapore.

Industrial support facilities should include a technical and technology information service provided by one or more organisations whose primary function would be to carry out research and development work on behalf of manufacturing industries.

"We envisage the establishment of laboratories and workshops, initially to provide services in support of the metalworking and metal-finishing industries but capable later of expansion to support other industries."

The committee further called for a "technology transfer agency" working in close consultation with the existing Trade, Industry and Customs Department and to be concerned particularly with the promotion of industrial investment in Hong Kong by overseas companies.

This agency would identify sources of technological development, select packages suitable for Hong Kong, help manufacturers negotiate on licensing, patents and know-how, and advise manufacturers on how to assimilate technology.

There was little point however in Hong Kong seeking to move into higher technology industries unless it could assure

adequate quality control to keep defects and failures to a minimum, the committee said. Here again, this was not an improvement likely to appear spontaneously and there was scope for official provision of certification and standards services as well as the introduction of quality assurance through Hong Kong's tertiary education institutions and industrial organisations.

Such existing organisations include the Hong Kong Polytechnic, the Federation of Hong Kong Industries, the Chinese Manufacturers Association of Hong Kong and the Hong Kong Productivity Centre.

The committee saw the Productivity Centre as the organisation "for some of the services recommended—providing some and co-ordinating others."

But it also saw a "clear need" for establishing a standing organisation with a planning, monitoring and advisory role. "We recommend the appointment of a standing Industrial Development Board with the Financial Secretary as chairman and with a membership which should include representatives of the Government, manufacturing industries and organisations providing industrial support facilities."

All this is a far cry from the present situation and it remains to be seen how many, if any, of the committee's recommendations the Government will adopt.

Hong Kong is, first and foremost, a laissez-faire economy, and planning is still anathema to many of the expatriate officials at the top. But the diversification committee, which included a number of prominent Chinese businessmen, was arguably more in tune with the feelings of Hong Kong's majority Chinese community.

It said: "While it is true that the economies of Singapore, South Korea, and Taiwan are managed by their Governments to a much greater extent than is the case in Hong Kong, we nevertheless consider this external experience is relevant to Hong Kong's circumstances."

Tougher times for the toy-makers

Toys Plastics

HONG KONG'S plastics and toy making industries have had a tougher time than most of the colony's manufacturing sectors over the last 15 months—mainly because of the revolution in Iran and the subsequent world oil crisis.

Plastics materials prices in Hong Kong tend to be low compared to other parts of the world. Polymers come in from the U.S., Europe, Japan, Taiwan and Singapore and the colony is often used as a virtual dumping ground. This means cheap raw materials for the toys, electronics and houseware industries—but last spring the picture changed dramatically.

The revolution in Iran, oil shortages—and fears of shortages—led to a series of steep increases in plastics prices throughout the world, including Hong Kong. Plastics consumer industries started to stockpile polymer against further price rises, a particularly expensive



Toy trains—shunting into recession?

operation because of high costs of land and of warehousing in the colony. Some companies, toymaking concerns among them, now find themselves with high stocks at a time when prices are falling sharply.

Others have already been forced out of business by the twin evils of high raw material prices and high stock costs. Official statistics show that between December 1978 and March last year the number of plastics fabrication factories in the colony fell from 4,515 to 4,435 and a total of 23 plastic toymaking concerns closed. Yet this three month period was before the worst of the post-Iran plastics price increases.

Order books

Toymakers are now facing the impact of recession, with many manufacturers' orders books down over the last year. Some expect to be operating at only 70 per cent of capacity this month and they fear they may be down to 50 per cent of capacity by September—yet normally their plants are running at 100 per cent.

Pessimism is not a notable attribute among most Hong Kong businessmen and toymakers are confidently predicting an upsurge of orders in the autumn. The closest some of them come to British-style gloom is to complain that they will be forced to air-freight their products to the U.S. and Europe if they are to arrive in time for Christmas and this will mean a cut in profit margins.

But they admit that the recession is hitting them—particularly smaller companies who design their own toys rather than making to order for, say, a U.S.-based group which runs big TV promotions.

Yet they reckon people will go on buying toys for their children, no matter how fierce the recession or how many other new consumer goods they have foregone purchasing. They are

looking for a 10 per cent to 20 per cent increase in sales value—as compared to around 50 per cent last year—and a 5 per cent to 10 per cent growth in volume which has been rising 10 to 20 per cent over the past few years.

Hong Kong is now importing most of its plastics materials from the U.S. American polymer prices are currently lower than those in most other parts of the world because the U.S. Government is holding down the price of oil and gas—from which plastics are made—to below normal, international levels.

Hong Kong only has one local plastics material producer—the U.S.-based Dow which opened a polystyrene plant in the colony in 1976. Dow opened the plant primarily to serve the Hong Kong market and it now has around 50 per cent of the colony's annual sales of about 120,000 tonnes of polystyrene.

Fear of the impact which the dumping of polystyrene in the colony might have on its business has made Dow wary of increasing its market share. But the company is thinking of expanding its 70,000 tonnes a year plant on Tsing Yi Island—15 per cent of production is exported. The group says the market for plastics has grown at around 20 per cent a year over the last five years and unless the recession is far deeper and lasts far longer than expected, it is thought that demand for toys and electronics will continue to grow strongly.

Dow says it needs to plan soon for production in 1982 to 1985. There seems a reasonable chance that it will decide to expand the plant—but the likely shape of the economic downturn will clearly be an important factor in making the choice. It says demand will be the key—and that means watching its customer industries including the toymakers.

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HONG KONG XI

Spinning into an exports tangle

Textiles

CLOTHING AND textile industries in Hong Kong continue to grow—despite the restrictions imposed on them under the Multi-Fibre Arrangement and increasingly fierce competition from other Far Eastern producers.

In 1979 the colony was the world's second largest exporter of clothing—having been ousted from first place by Italy. The value of its clothing exports last year was 28 per cent higher than in 1978, although in real terms the increase was a far more modest 5 per cent. The major markets remained the U.S., which accounted for 35.8 per cent of Hong Kong's \$2.2bn worth of garment exports, West Germany with a 17.9 per cent share and the UK with 14 per cent.

Textile exports—notably woven cotton fabrics, textile yarn and woven man-made fabrics—also rose last year. Volumes increased by 15 per cent while the value of textile exports went up by 42 per cent in money terms to \$446m.

Yet Hong Kong's clothing and textile manufacturers are find-

ing themselves under growing pressure on a number of fronts. Their opportunities for growth are being squeezed by agreements made under the Multi-Fibre Arrangement—MFA: competing countries such as Taiwan and South Korea are eating into their markets, particularly in the field of cheap, bulk clothing where Hong Kong has traditionally been strong; and they face rising costs, falling world demand because of the economic downturn in the West plus what some of them see as a serious labour shortage.

Perhaps the chief cause of concern—certainly the one that arouses most indignation—is the working of the MFA. Most of the Hong Kong's clothing and textile producers recognise that the import quotas imposed by the U.S. and the European Economic Community countries offer them a stable and guaranteed market with some in-built element of growth.

But they believe the character of the MFA has been slowly changed over the past three or four years so that it increasingly operates to the disadvantage of manufacturers in the colony. Eight weeks ago, Miss Lydia Dunn, of the Swire Group, speaking in Brussels to a conference on international trade in clothing and textiles, claimed there had been "a systematic erosion of the spirit and the

letter of the MFA." It was being transformed into "an instrument of discrimination practised by the developed countries against the developing countries."

Miss Dunn listed some of the Hong Kong manufacturers' chief complaints against the working of the MFA:

- Importing countries can impose restrictions on textile and clothing suppliers on the grounds of actual or threatened disruption to their domestic markets. Hong Kong producers claim they often act without giving adequate proof of disruption.

- Importing nations introduce restrictions against a number of supplying countries on the grounds of market disruption. They fail to make a case for restraint against each one individually—as is required under the MFA.

- European countries and the U.S. restrict imports from developing nations but not from other industrialised states. Hong Kong claims that the latter do far greater damage to the importing countries' domestic markets.

- The importing nations are cutting back the quotas for more advanced developing countries—such as Hong Kong—so as to give the less developed states more access to their markets. The practice was described by Miss Dunn as "charity to

developing countries by developing countries."

- The importing nations are sometimes by-passing the terms of the MFA altogether by making tough bilateral agreements under its "reasonable departures" clause.

Hong Kong's clothing and textile producers are particularly concerned about attempts to give some of their quota entitlements to poorer countries—often the very nations whose lower labour costs enable them to offer the stiffest competition to the colony.

Loopholes

But attempts are being made to overcome the growing limitations of the MFA. Every loophole in the restrictions imposed by the importing industrialised countries is exploited to the full—such as "borrowing" from the quotas for less successful lines to improve the ceilings on best-selling items. Yet the room for manoeuvre here is being constantly cut back.

From the point of view of the longer term, Hong Kong is trying to develop new, unrestricted markets such as South America and the Middle East. It appears to be having some success in terms of export growth rates. Last year the colony's exports to Saudi Arabia, for example—nearly all clothing—were \$20.3m as compared to \$15.2m in 1978. Exports to Saudi in the first

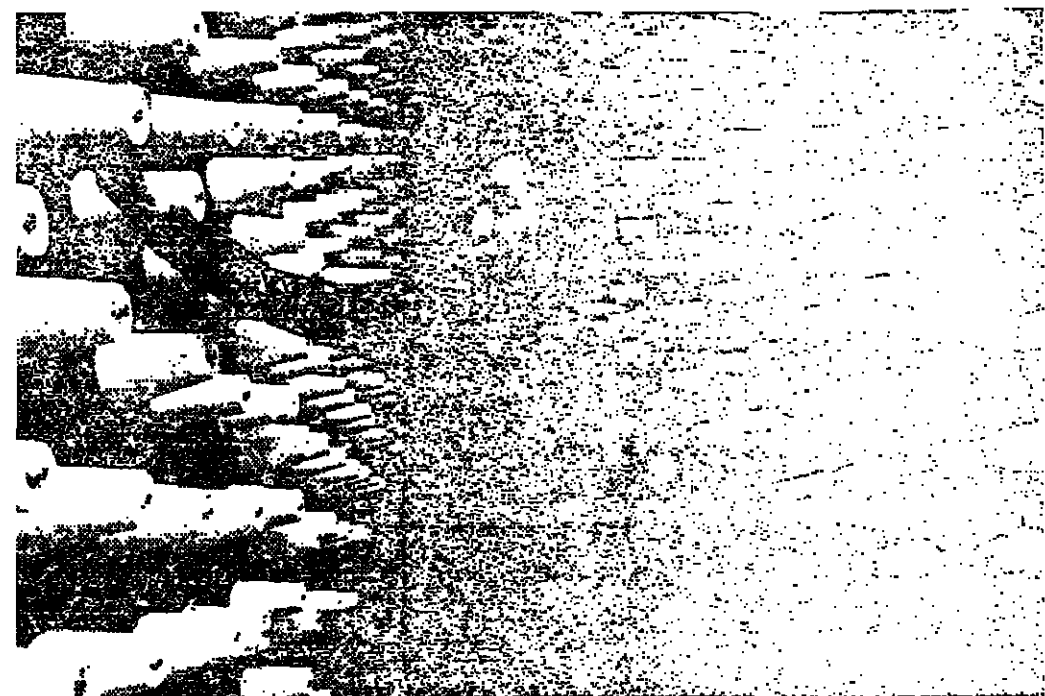
quarter of this year were \$18m.

Hong Kong is also trying to beat such rivals as South Korea—the colony's textile and garments industries are shedding few tears over the current political problems there—by continuing its attempts to upgrade its products. Greater emphasis is being placed on the standard of the clothes produced and on design.

Ranges of designer-label clothes—including Yves St. Laurent, Christian Dior, Fiorucci, Gloria Vanderbilt and Pierre Cardin—are now being made in Hong Kong and there are hopes in some quarters that the colony will eventually develop its own international fashion "look."

But some manufacturers attach far less importance to the design of their clothes and fabrics than others. There are some who claim that the race for designer-label clothes will pass in much the same way as any other fashion. They also claim that Hong Kong will never be able to go much beyond the upper-middle range of the European and U.S. clothing markets. They believe that Western haute couture will continue to be Western born and bred.

One of the complaints resulting from the move upmarket concerns the apparent unwillingness of British fabrics producers—particularly makers of woaden cloth—to sell more to Hong



Following the thread: a textile worker at Hong Kong Spinning Co. Ltd.

Kong. But UK manufacturers say there are not enough big customers in the colony to make it worth their while—in terms of prices or volumes.

A more pressing worry for some of Hong Kong's textile and clothing producers is the difficulty of attracting and retaining an adequate labour force. Despite higher wages, improved working conditions and a variety of incentive schemes, there are companies which say their employees still desert them for other industries—especially electronics, where

the hours tend to be shorter.

The job advertisements that are posted up in the halls and entrances of some of the multifactory blocks are often quickly pasted over by other companies in the same building offering even better rewards for those who will come and join them. One enterprising employer found a way round this problem by having his job advertisement posters printed on cloth instead of paper, so making it harder for others to paste their own ads on top.

The full impact of recession

in the West—although it is not yet felt in Hong Kong—should gradually be felt in the colony. The clothing manufacturers' turnover is expected to be hit by the downturn in demand for their main export. They claim, and it is difficult to dispute, that their industry is more resilient than others in the colony. But the full impact of recession in the West—although it is not yet felt in Hong Kong—should gradually be felt in the colony. The clothing manufacturers' turnover is expected to be hit by the downturn in demand for their main export. They claim, and it is difficult to dispute, that their industry is more resilient than others in the colony.



Thinking small: workers assemble printed computer circuit boards

A switch in time...

Electronics

ELECTRONICS COMPANIES in Hong Kong seem confident that the current recession will not bite too deeply into business—particularly in the watches and games sectors.

The electronics industry is the colony's second biggest foreign exchange earner and last year the value of exports rose by 50 per cent of \$1.062bn. Radios are still the most important electronics export items, followed by watches. The colony is the largest exporter of watches in terms of volume, in the world, although it ranks after Switzerland and Japan in value terms.

Growth is expected to continue this year but at a lower rate because of the economic downturn. Yet the forecast is for an increase of around 30 per cent in sales value and perhaps 5 per cent to 10 per cent in volume for the electronics industry as a whole, while watches are thought likely to rise by 20 per cent to 30 per cent in sales volume and value.

Manufacturers say firmly that it will be the bigger items—such as cars—that will bear the brunt of cuts in consumer spending in the U.S., West Germany and the UK—Hong Kong's three largest electronics export markets. They believe electronic watches and games will "escape" comparatively lightly—partly because they are comparatively cheap, partly because of the novelty value that can be given to them, and partly because people will go on buying presents at Christmas time even in a recession.

They admit that radios are likely to feel the pinch. Most Westerners already have a radio, and there is little to tempt them into buying a new model when money and jobs are short. Some Hong Kong electronics companies also concede that orders for the peak Christmas season are coming in much later this year than in the U.S. and Europe than usual. Customers are being cautious and are taking great care not to overstock. Yet there is optimism that the orders will come in—albeit tardily.

Hong Kong has built up its electronics industry in just over 10 years and the colony is still dependent on other countries, notably Japan and the U.S., for imports of wafers and for technological innovation. This reliance on others made itself felt last year when there was a world shortage of chips.

But as yet there is no real likelihood of the colony setting up a major research programme of its own. There are no companies large enough and profitable enough to fund basic research and even if there were, there is a shortage of local people with sufficient training and expertise.

What manufacturers in the colony are doing is to obtain licences from some of the major U.S. and Japan-based companies. Hong Kong has also been doing its best to attract foreign investment in electronics and the effort is paying off. Three companies—Elec Electronics, RCL Semiconductors and Tele-Art—are setting up silicon wafer fabrication plants on the Taiipo industrial estate. All three are U.S.-based.

Adaptability

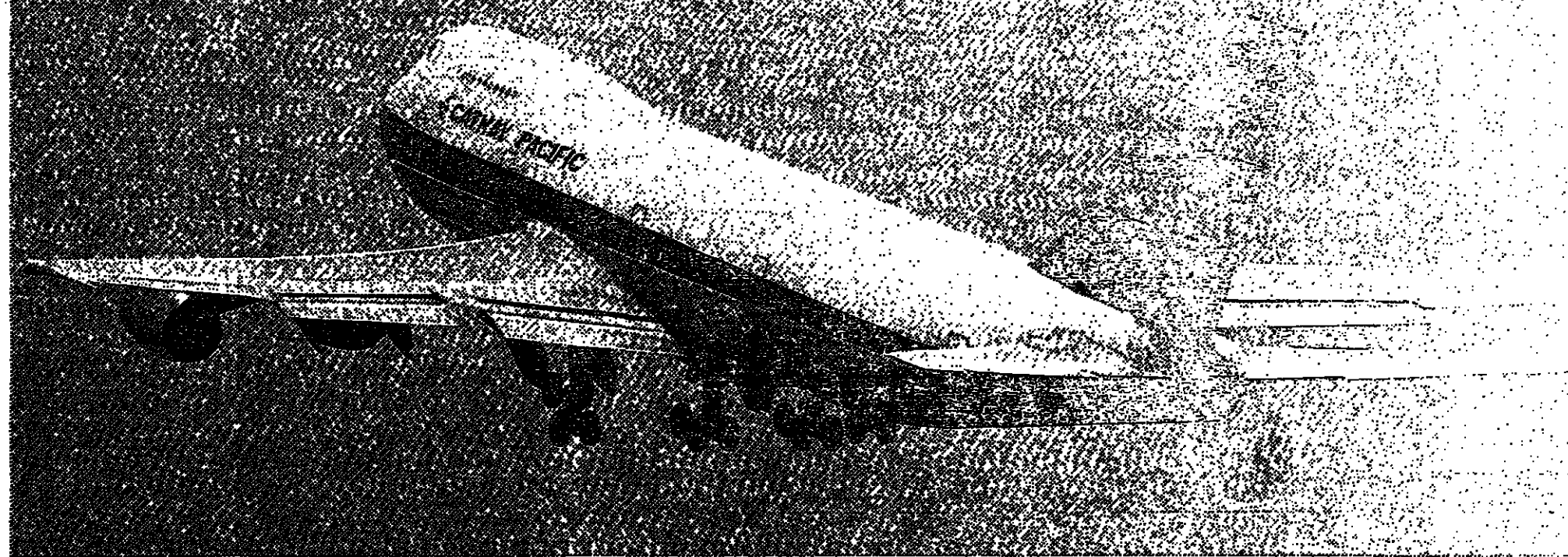
Meanwhile, Hong Kong companies are relying on their adaptability and on their flair for meeting changes in consumer demand to beat the recession and to fight off competition from poorer countries such as Taiwan and from technologically advanced ones such as Japan. Producers have been trying to move upmarket in the watches sector, but they are finding that buyers are demanding even lower prices. There are fears that the only way to satisfy this demand for cheapness would be to sacrifice quality—a policy that would give their Swiss and Japanese competitors an even greater edge and which is therefore being resisted.

Electronic games manufacturers are still enjoying a boom in hand-held games although they say sales are now beginning to fall off. Fashions in electronic games can change remarkably swiftly—as producers of TV games discovered a few years ago. Companies with licences to make Western games are probably in a stronger position than those which design their own.

This is partly because of easier marketing in Europe or the U.S., but also because the more sophisticated games retain their novelty longer. Some of the leading manufacturers in Hong Kong are now looking forward to second and third generation hand-held games. Some electronics companies—like those producing textiles and clothing—are complaining of a shortage of labour. They say that while they do not expect to be unduly hard hit by the recession, the current difficulties in attracting and retaining employees will make it that much harder to meet late orders from the West this winter.

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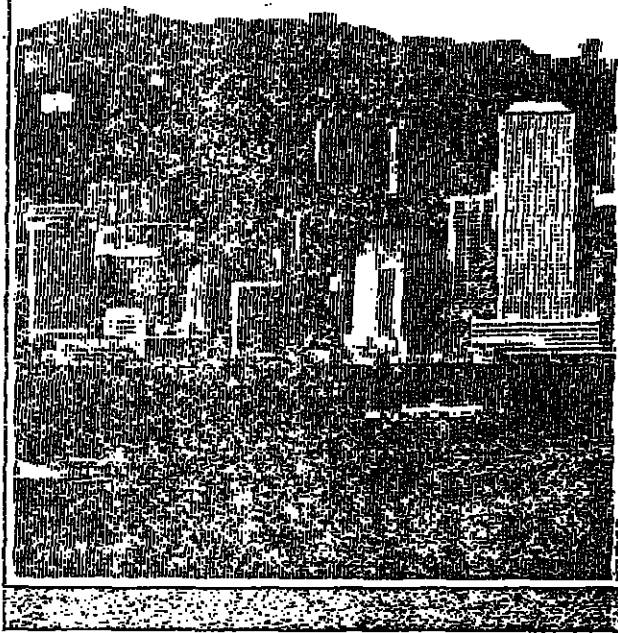
HONG KONG XII

Colony seeks to benefit from China's oil

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CHINA HAS now started planning her long-awaited offshore oil exploration programme—and there are high hopes in Hong Kong that the colony will soon be reaping the benefits of a new oil boom.

There are those who confidently expect Hong Kong to be providing a comprehensive back-up service for the development of China's offshore reserves within the next few years. They claim the colony is capable of covering all aspects of the oil industry's needs, from the building of rigs to the provision of housing for expatriate workers and their families.

Others—including some of the major Western oil companies—believe the euphoria may be largely premature. They point out that China may insist on storage depots and repair yards being on Chinese soil and that Hong Kong itself is suffering from a severe land shortage.

Yet Hong Kong's hawks were doubtless heartened by China's formal announcement nearly two weeks ago of plans for co-operating with foreign oil companies in the development of her energy resources. The Chinese said the seismic survey work that Western oil majors have been carrying out for some years in seven offshore blocks was now completed. They added that the geological data suggested the existence of substantial oil and gas reserves.

Estimates of China's oil reserves have been put as high as 100bn barrels, though more cautious forecasts reckon that 30bn barrels would be nearer the mark, certainly in terms of economically recoverable crude. But even the lower figure will still put China in the big league as an oil producing country—the latest available figures put her existing proven reserves at 18bn barrels.

During the coming year, China is expected to ask foreign oil companies to put in bids for exploration and production

contracts. The terms of the contracts have yet to be decided and some stiff bargaining is expected before they are finally agreed.

The major Western oil groups—most of those involved in initial survey work have been U.S.-based—are looking for additional supplies of crude. They are not interested in merely being paid to bring out the oil and hand it all over to the Chinese.

They are aware that China may not feel a too-rapid development policy is in her interests and they also know that China's domestic demand for oil and oil products is increasing—particularly in the transport and agriculture sectors—in line with a predicted annual GNP growth rate of about 7 per cent.

Strong position

But the Western companies believe that China's need for foreign exchange and for foreign expertise—the waters of the offshore blocks are up to 600 feet deep—will put them in a strong negotiating position.

They are certainly hoping for better terms than those that have already been signed with the Japanese for exploration and development in the Bohai Gulf. The deal is described as being highly favourable to China. But China's statement at the end of last month confirmed that future contracts would not necessarily be on the same lines as the one agreed with the Japanese.

Even allowing for protracted negotiations, the stage seems set for exploratory drilling to start in earnest during the next two to three years. This means Hong Kong will have to move fairly fast if it wants to put in a serious bid to become a major base for the offshore industry.

There are a number of possible ways in which the colony could service China's development of oil and gas reserves. These include: building oil rigs; repair and maintenance; providing storage depots for the pipes, chemicals and other

equipment that will be used; communications; and providing homes and other services for oilmen and their families.

But some of these opportunities for Hong Kong's participation in China's oil development look far more promising than others. For example, the colony already has a modern and efficient communications network—far better than anything China herself can offer at present. On the other hand, Hong Kong is desperately short of land and this could ultimately put an end to hopes of rig-building and storage bases, which would both require considerable space.

Those who are determined that the colony should be used for building rigs and storing equipment insist that the problems can be overcome. They point out that Hong Kong is far and away the best deep-water port in the South China Seas and probably the only port in the area that can handle the very large, third-generation container ships.

They also claim that none of the nearby Chinese ports would be able to cope with the bigger ships that will be required to bring in the heavier pieces of equipment the oil industry will need. They admit it will not be easy—or cheap—to provide sufficient land with deep-water access for an oil base. But they stress that it could be done, following the usual Hong Kong methods of cutting into a hillside and so extending the acreage of flat ground.

Their views were given considerable support by the report of the Hong Kong Advisory Committee on Diversification, which suggested that the Government should "plan actively for the provision of a site for a logistics support base".

The Government is now looking into the possibilities—and the drawbacks—of providing a site for a land base. But no decision has yet been made as to whether it should follow the recommendation of the report.

Land in Hong Kong is normally sold by auction, on the assumption that the highest bidder will ensure he makes the best economic use of it. But the Government does have power to designate land-use and this could lead to a lower premium being paid by—for example—one of the major oil companies.

Yet the overall cost of flattening a mountainside would still be extremely high and the extra space made available might well be more profitably used by other manufacturing industries. If the Government did clear a site, it could then find itself under pressure from local companies which wanted to use it themselves.

One idea being considered is that a site should be provided, but instead of being developed by the Government or sold to the oil industry, a special corporation should be set up to run it. Part of the corporation's job would be to turn the land over to other uses when the oil era ends.

Key factor

The attitude of China is a key factor in the question of where major land bases for the oil industry will be set up. The Chinese are keen to play as big a part as possible in the development of their own oil and gas resources. And a number of senior people in the major oil companies believe the Chinese will insist on storage facilities being sited on their side of the border. Some of the oil companies are also sceptical about the likelihood of rigs being built in Hong Kong.

They believe Hong Kong stands a greater chance of sharing in the repair and maintenance work that will have to be



A gas burn-off from an exploratory well in the South China Sea

done. It is thought the colony's repair and dockyard companies should be able to provide the required degree of expertise. The oil majors also look favourably on Hong Kong as a communications centre, but of them are less happy about using it as a base for their personnel.

It is frequently assumed in Hong Kong itself that the oilmen and their families will have to live in Hong Kong—partly because of its proximity to China and even more because of the comparatively low standard of living in China.

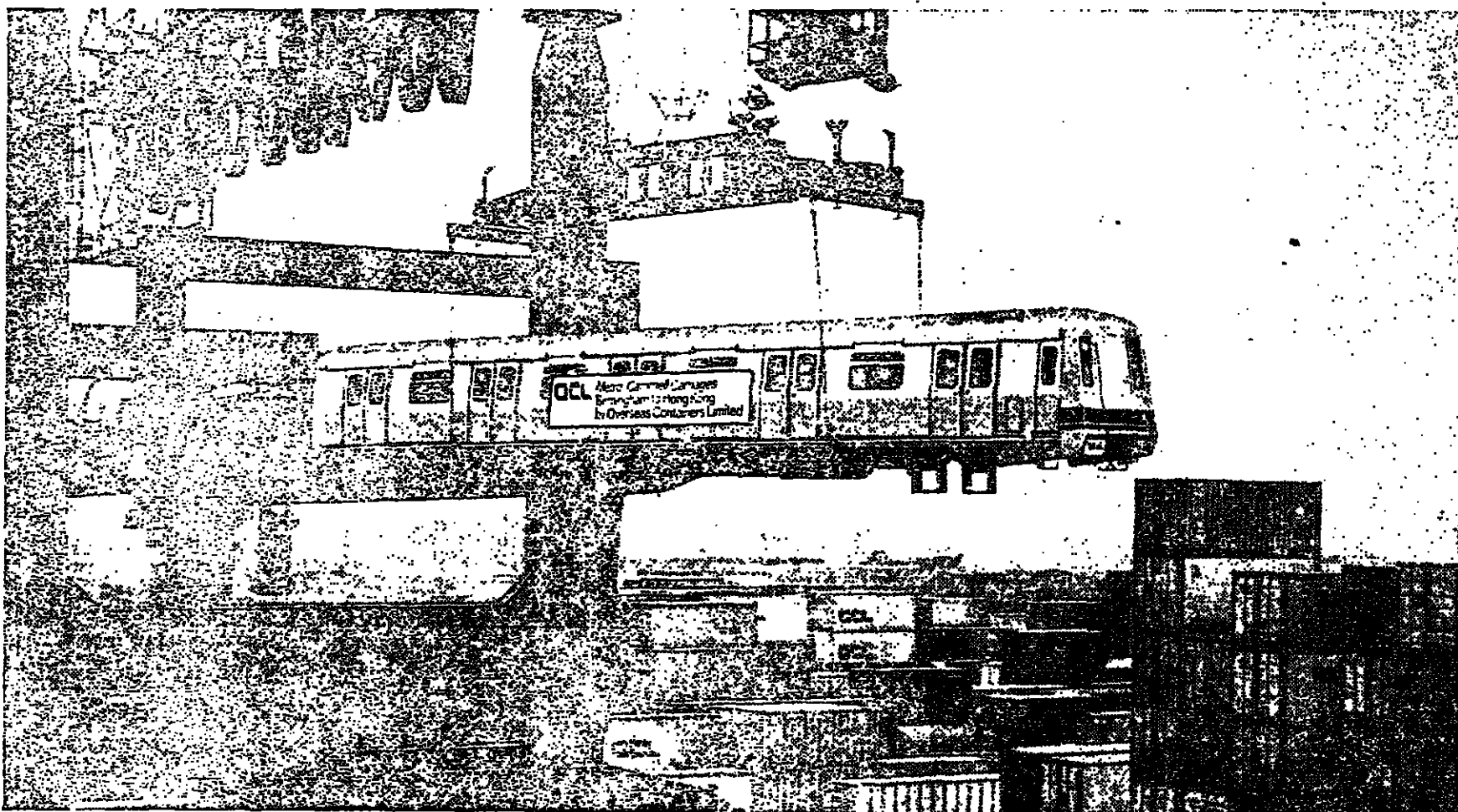
But the cost of land and of living in Hong Kong may well count against the colony. Most of those involved will be Americans and within the oil industry there is now talk of basing people in Hawaii or Guam and flying them out to the rigs. One senior U.S. oil company

executive estimated that it would probably cost around \$800 a month to rent a four-bedroom house with a garden in Houston, Texas. But in Hong Kong, accommodation for a family in a reasonably large house would cost an average of \$4,000 a month.

The development of Chinese offshore oil—and her offshore reserves at a later date—will clearly provide some spin-off gains for Hong Kong. There is a great deal of money to be made by the peripheral industries that back up oil-producing companies and the colony is infused with the entire prenascent spirit.

But Hong Kong—which will have to compete with Singapore for some of the business opportunities—may be overestimating the advantages that an oil boom will bring to the colony.

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THE COLONY is turning increasingly to coal in an attempt to beat rising world oil prices while meeting its rapid increase in demand for power.

Two new power stations are currently under construction and both will be coal-fired, although they will be capable of using oil as an alternative fuel. A third has been proposed and is now in the final planning stages. The decision as to whether to go ahead with it will be taken next year.

Some of the coal to be used in the new stations is expected to come from China. Co-operation between Hong Kong and the People's Republic over energy supplies is strong and is likely to be extended in the future. The colony is already supplying China with 1m units of electricity a day and there are proposals for increasing the supply.

Hong Kong's China Light and Power Company is also helping the Chinese to carry out a feasibility study into the building of a nuclear power station. The first results from the study are expected this autumn. Four sites in the republic's Guangdong Province are thought to be under consideration—all of them close to the Hong Kong border.

Joint ventures

If the nuclear station goes ahead—Sir Laurence Kadourie, chairman of China Light, believes there is a 30 to 40 per cent chance that it will—it is thought likely that some of the power it produces will be sent across to Hong Kong.

The energy field seems to be particularly rich in opportunities for joint ventures between Hong Kong and China. Such projects have political significance for the colony because they can indicate China's willingness to allow Hong Kong to continue under "British management" after the lease on the New Territories runs out at the end of 1997. The Chinese do not recognise the lease and it is thought most unlikely that they will be prepared to renegotiate it in any formal way.

But in the meantime, Hong Kong is still dependent on oil. Total demand is estimated to be around 140,000 barrels a day and it is expected to remain fairly static over the next few years—largely because of the power stations switching to coal.

Oil for the colony is imported, mainly from the refineries in Singapore. Hong Kong has no refinery of its own, although the Government is discussing the possibility of building one with British Petroleum. Here again, there is a chance that such a refinery could use supplies of crude from offshore China as its raw material. The alternative—some say the more likely one—would be for a refinery to use Middle Eastern crude as do those in Singapore.

The colony's power companies—China Light and Hong Kong Electric—have been major buyers of oil products in the past, but this will change dramatically as they go over to using coal. Hong Kong Electric is building what is planned to be a coal-fired station on Lamma Island and China Light is constructing another at Castle Peak in the New Territories.

The first of four 350MW units at the Castle Peak station, which is being built with British equipment from GEC and long term financing from the UK, is due to come into operation in March 1982. China Light estimates that by that date, 7 per cent of its total fuel will be coal and 93 per cent oil. But by 1989, when all the sets will be in operation, the proportion is expected to be 71 per cent coal and 29 per cent oil.

The switch in fuels is taking place against a background of rapidly rising demand for power. Last year, China Light's sales rose—in terms of KW hours—by 12.5 per cent and an average growth rate of around 9 per cent is forecast for the greater part of the coming decade. The average growth in demand in most developing countries is thought to be nearer 4 per cent a year.

But the company admits that with over 80 per cent of its volume sales going to power

stations, the changeover to coal will have considerable impact. It points out, however, that there will be no significant change in its sales until 1985, and adds that the prospect of further crude shortages would mean it will be happy to have "extra" oil available for other markets.

Coal for China Light's Castle Peak station will come from Australia, South Africa and Canada as well as from China. Each of the four units will need 700,000 tonnes a year and by 1981 it is expected that the colony will be importing between 7m and 8m tonnes a year.

Transport problem

China Light is hoping that China will supply up to 33 per cent of its requirements, while Australia may provide up to 50 per cent. But the Chinese are having difficulty arranging for the transport of coal to the colony. They have said they are planning to improve their rolling stock, but in the shorter term, it remains to be seen how much they will be able to supply to Hong Kong.

China Light's decision on whether to go ahead with the building of a B station at Castle Peak depends on the length and depth of the world recession that is already making itself felt in the colony. The company says it is now experiencing a 1 per cent drop in demand from industry—manufacturing accounts for about 45 per cent of its demand, domestic use for 20 per cent and service industries, including the mass transit, for some 35 per cent.

China Light reckons that in a year's time the recession will either have passed or it will have reached its nadir. In either case the decision on B station should be clear cut. But the company stresses that the station will be built eventually. Even if the economic downturn is far fiercer than expected, plans for construction will merely be deferred, not abandoned.

Cathay Gartmore

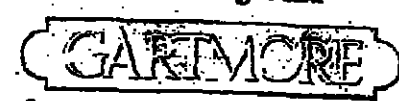
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HONG KONG XIII

Mass transit system solves only one mobility problem

HONG KONG'S mass transit railway was officially opened in February, seven weeks ahead of schedule, and within the HK\$5.5bn budget. It was an occasion for rejoicing, but it was only the start of a solution to Hong Kong's massive transport problems.

In the next few weeks a decision will have to be taken on the next stage of railway building, whether to extend the mass transit railway (MTR) or to construct separate light railways for Hong Kong Island.

After that the colonial authorities will have to address themselves to the perennial but growing problem of congestion on the roads, to the question of capacity on the cross-harbour tunnel between Hong Kong Island and Kowloon, to the need for transport links to the new towns rapidly springing up, to demands for better road connections with China, and to the issue of whether to build a new international airport on Lantau Island.

Norman Thompson, the chairman of the MTR, in response to question about whether the railway would ever pay for itself, confidently said that Hong Kong is a transport operator's heaven. But for a transport planner, it may seem more like hell. The small territory and the narrow corridors between mountains and mountainside mean that there is little physical room to build. And the rapid increase in population, swollen by the numbers coming from China, means that there is an ever-growing demand for more and better services.

Nearly 7m journeys a day are made on Hong Kong's public transport alone. And with only 117 kilometres of road in the colony, many roads are congested at most times of the day, and especially jammed at morning and evening office opening and closing times.

Big developer

Construction of a largely underground MTR was an important part of the search for a solution to the shortage of land for transport. It has the advantage that shops, offices, houses and flats can be built on top and especially around stations, and the MTR Corporation has quickly become the third largest property developer in Hong Kong.

Technically, the system can be counted a huge success, not least because it was built within the time and the budget allocated. The first 8 kilometres of the MTR was opened to the public in October, 1979; the next 7.6 kilometres was working in time for the Chinese New Year, and the initial system was officially opened by Princess Alexandra on February 12 this year.

Mr. Thompson estimates that the cost of this modified initial system, which stretches from Kwun Tong in east Kowloon, down Nathan Road and under the harbour to the commercial centre of Hong Kong, will be HK\$5.55bn. Work is going on on another 10.5 kilometre link from Suen Wan in west Kowloon, which will join the initial system at Prince Edward on Nathan Road. This stretch will be ready by the end of 1982 and will cost HK\$4.1bn.

Of the 15 stations in the initial system, 12 are underground and three are elevated. They have been built through a variety of geological formations, including heavily eroded granite, solid rock and reclaimed land.

In cases Hong Kong's high-water table called for tunnelling inside a tunnel of compressed air. The stations are among the largest in the world, normally about 230 metres long and reaching 300 metres at Chater in central Hong Kong.

The system is built to cope with 60,000 people an hour past any point and to handle more than a million journeys a day, which is the estimate of the number of passengers who will use the initial system by the mid-1990s.

Carriages can accommodate 327 passengers standing and 48 sitting on the stainless steel seats. At the start, all trains consisted of four cars, but they are being increased to six and will eventually reach eight cars.

The MTR has one of the world's most advanced computer control and train operations in the world, with fail-safe control



A Redifon simulator, used to train drivers for the Mass Transit Railway



Ashley Ashwood

of all routine train movements to prevent the danger of collisions. The trains run automatically though they have a driver to give the starting signal in the stations. Intervals between the trains is three to eight minutes, but the system allows for a gap of as little as two minutes.

Plastic tickets

Ticket collecting is also automatic, using a plastic, magnetically encoded ticket, the size of a credit card, which gives information as to its value and date, time and place of issue. The system has had its test in difficulties. These include one serious breakdown, frequent overshooting of station platforms by half a carriage because of faults in the software, and in some places foul smells, believed to be because the opening of the rock in construction may have exposed fungi trapped there to fresh oxygen supplies.

The railway also has its critics, some of whom question whether it will ever pay for itself. Mr. Thompson is confident that it will and will be making operational profits by 1984. Others say that the number of people using the mass transit is lower than expected.

Mr. Eric Black, the Managing Director of the MTR, responds that the number of passengers carried is up to target—400,000 daily.

In the early days the MTR carried a lot of passengers who were going just for the ride to see what the new railway was like. During the Chinese New Year, when the line was open round the clock for one day, 963,000 people were carried in the 24 hour period.

Mr. Thompson and Mr. Black point out that the MTR is already one of the most densely populated transport systems per kilometre. The average of 400,000 people a day on 16 kilometres of track compares with 15m passengers carried every day on the London Underground, but on 357 kilometres of track.

"We are still very much on our learning curve," said Mr. Black. "The total number of passengers carried is up to the forecast and I expect that numbers will begin to rise." Other Hong Kong transport systems have sometimes started slowly, and then usage risen way above expectations.

The cross-harbour tunnel was at 40 per cent of capacity soon after being opened; now it is working at 110 per cent of capacity with long queues at peak periods, and thought is being given to new cross-harbour road links.

Other complaints about the MTR concern access to the system. When the full MTR system is operational, it is claimed, 40 per cent of all Hong Kong homes and 50 per cent of work places will be within 10 minutes walk of a station.

Potential passengers who would come in from outlying areas of Kowloon or the New Territories grumble that there is no car parking space at the stations. And the people on Hong Kong Island are still

waiting to know when and where their rail line will run: the debate over which railway system should be built is still going on.

Mr. Black comments: "The question of car parking at stations is a question for the Government and not for the Mass Transit Corporation." But he adds that after discussions between the Corporation and the bus companies, bus services from the densely-populated areas to MTR stations have been improved, so there is better access by public transport.

The question over what system should run on Hong Kong Island may be settled this month. Basically the choice is between an extension of the MTR or a light rail transit system rather like a big tramway which would run on the surface.

Because of the higher costs of tunnelling, a light rail system could run the entire length of Hong Kong's north shore, whereas the MTR extension would be much shorter and even more costly at more than HK\$4bn. Mr. Black explained that MTR debts would peak in 1984 at HK\$12.2bn "and we don't wish to exceed this." So a full underground system for the whole of the north shore is ruled out.

Too much

But the advantages which a light railway has in cost have to be offset against the life of the line. Experts estimate that by the 1990s, Hong Kong Island would have to have an underground system as the traffic became too much for a light railway.

One possible way round all of the problems would be for the Government to invest now in a complete MTR system and to meet the extra capital costs beyond the HK\$12.2bn ceiling from its reserve funds, which have been mounting up steadily against the possible "rainy day" in the future.

But this would infringe the principle that the MTR must pay its own way, and the reserves are a touchy question, which does not seem to have been openly discussed.

What has been actively debated is how long Hong Kong can go on allowing a free run to the private motor car. Suggestions of higher road licences or a restricted inner zone like that of Singapore have come increasingly under discussion. Motor vehicle registrations have topped 250,000 and are rising by more than 25,000 a year.

In any other society new and improved roads might be the answer, but in Hong Kong, which is already the most heavily populated metropolitan area in the world, there are limits to the number of flyovers that can be built one on top of the other.

The 1979 Government white paper titled "Keeping Hong Kong Moving" suggested a three-part policy: improvements to the road network, expansion and improvements in public transport and the more economical use of roads.

There are limits in all areas, but there is some scope for better road use. One simple example of wasteful road use is that a good deal of Hong Kong's food produce arrives and is unloaded near the western markets in Hong Kong, is then taken several kilometres by road to cold storage at North Point, and is then transported back by road to western markets for sale.

The scope for road improvements has to be set against the Government's overall financial commitments which have led to delaying several times of import road projects. And in the end the physical restrictions of the island and the lack of room for manoeuvre impose their own limitations.

The ideal way forward would be an improvement in public transport. With the growth of new towns such as Sha Tin, Tuen Mun and Yuen Long, some of which may before long have populations of nearly 1m people, the most sensible course would seem to be to plan public transport so that people can have

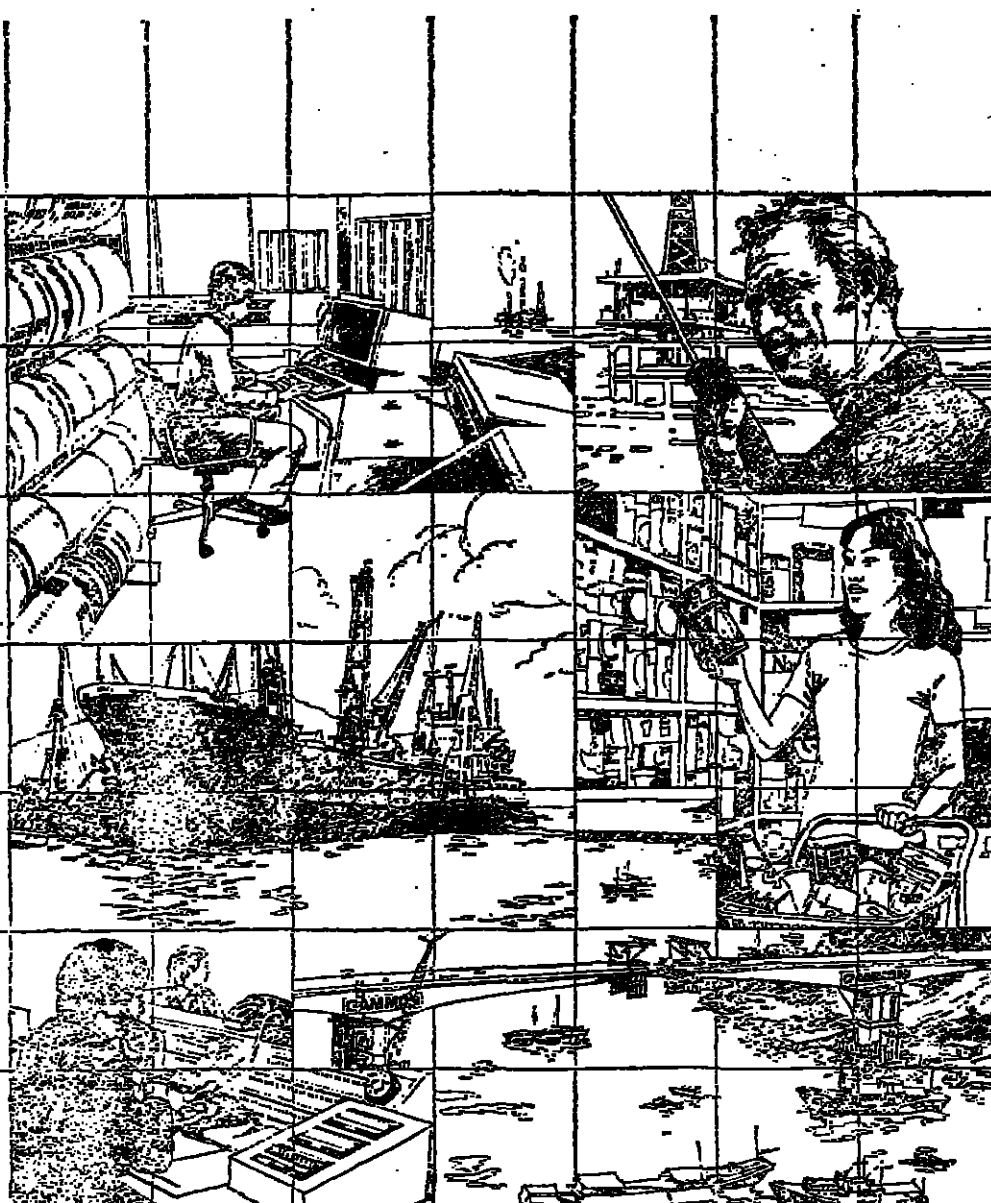
another ideal than car ownership.

But Hong Kong will continue to need better roads and more spending on them, and not least will need improved transport communications with China. These will help to smooth the path of the colony's business links with China.

The Kowloon-Canton railway needs modernising and upgrading to take container traffic. But even if China does ship more goods by rail container, the Government is still considering new road links between Hong Kong and China.

This is a task for the future as the two governments will have to sit down and agree on the alignments, the volumes of traffic and when the roads will be built.

Kevin Rafferty



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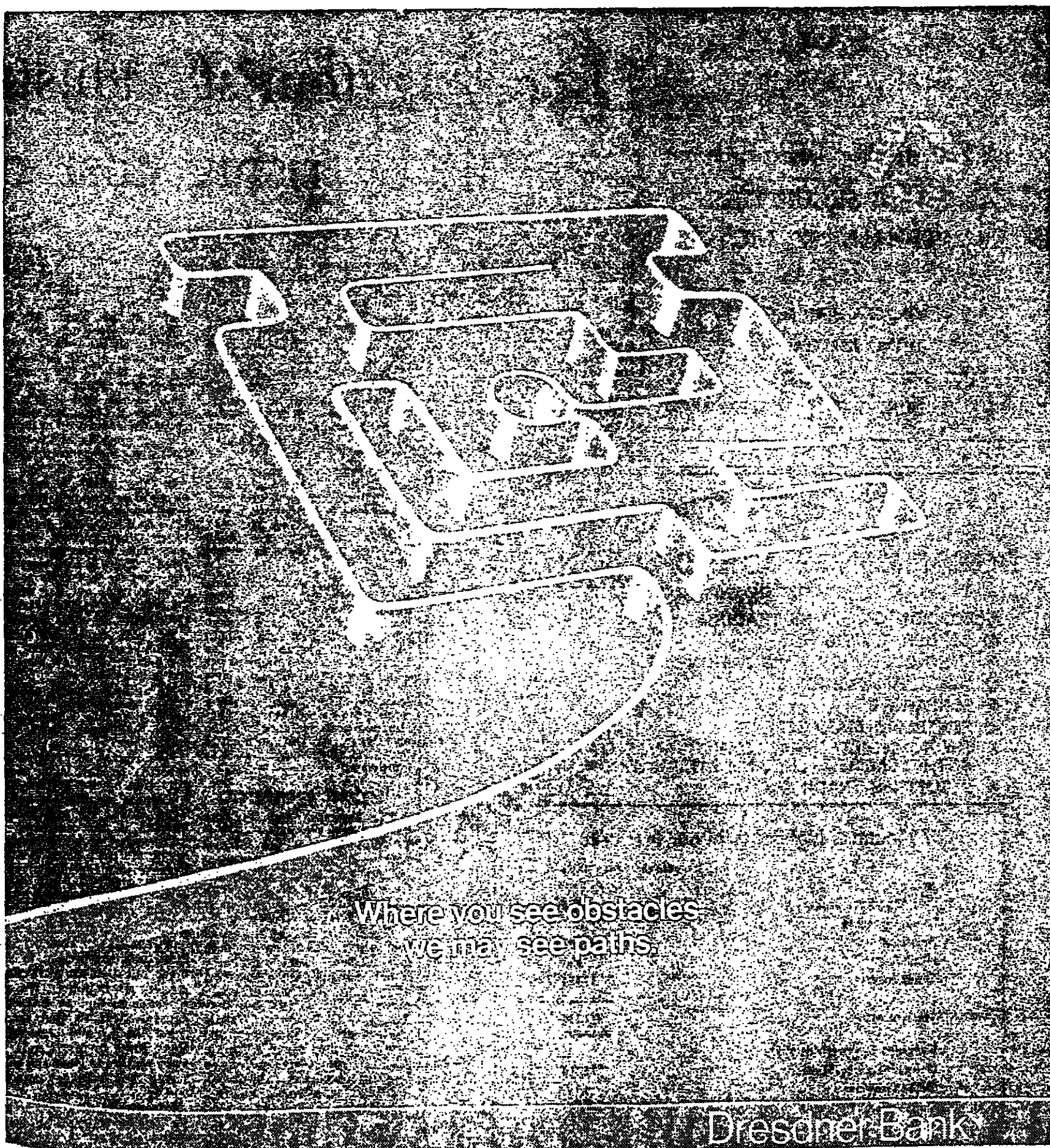
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The Kowloon end of the road tunnel which links Kowloon with Hong Kong island

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Financial highlights in our first year

| | (in thousands HK\$) | Dec. 31, 1979 |
|---|---------------------|----------------|
| Assets | | |
| Cash/Due from Banks | | 5,578 |
| Loans/Discounts | | 212,136 |
| Securities | | 142,245 |
| Fixed Assets | | 656 |
| Other Assets | | 11,624 |
| Total Assets | | 372,239 |
| Liabilities & Shareholders' Equity | | |
| Deposits/Due to Banks | | 299,310 |
| Other Liabilities | | 8,772 |
| Shareholders' Equity | | 64,157 |
| Total Liabilities & Shareholders' Equity | | 372,239 |
| Net Profit after Tax | | 4,157 |

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HONG KONG XIV

Decision on new airport within two years



A Lockheed Super TriStar of Cathay Pacific at Hong Kong International Airport

ANY ONE of the million or so people living in Kowloon, in the flight path to Kaitak Airport, will be convinced that the need for a new airport is obvious and a decision is long overdue.

In fact, the Hong Kong Government is now committed to a decision by 1982, perhaps the most important decision facing it this decade. A new airport would open up tremendous new economic and industrial possibilities, but it raises political problems which strike at the heart of Hong Kong's future.

The shortcomings of Kaitak Airport were first acknowledged in 1970. Just 12 years after it opened, Mr Brian Keep, Director of Civil Aviation, was succinct: "The problem is simple: Kaitak is an airport in the middle of a city."

The headaches this involved may have seemed manageable when the airport terminal opened to cope with about 500 passengers an hour. By 1979, the airport was dealing with 5,000 passengers an hour. It handles 1,000 flights a week from 30 scheduled and 23 non-scheduled carriers and links Hong Kong with 64 major cities around the world.

The airport causes considerable environmental problems. It is difficult to reach through heavy city traffic, height restrictions of between 50 and 60 feet close to the airport have put severe limitations on residential and industrial development; and the curved approach over Chinese airspace presents landing difficulties to pilots.

Abandoned

In 1973, the Government authorised a preliminary study on the siting of a new airport but this was abandoned in 1974 when OPEC first raised oil prices and prompted a sharp fall in air travel.

Ideas on a new airport were presented again in 1979 when it became apparent that, on current passenger traffic trends, the present volume of 6.5m passengers a year would have swollen to 15m by 1990. Kaitak's capacity of 12m is likely to be met by 1985.

The volume of cargo being handled through Hong Kong is also rising rapidly and last year reached 250,000 tonnes. The Civil Aviation Authority says that by 1985, if no action has been taken and the present growth trends continue, there will be no option but to trade-off passenger traffic against

cargo—an invidious problem for any airline to solve.

A new airport is likely to take at least seven years to build. It will almost certainly be at Cheklapkok, a small island to the north of Lantau Island, and virtually equidistant from Hong Kong's central business district, Kowloon, the New Territories, the Portuguese colony of Macao, and China's three new export processing zones in the south of Guangdong Province—Shenzhen, Jihai and Shikou.

Numerous other options have been examined and rejected, most recently in a consultant's report presented to the Director of Civil Aviation two months ago.

Liberation

Cheklapkok would "liberate" the Kaitak area for new development (the Government has ruled out the possibility of running two airports, not only because of the nightmares of air traffic control it would raise, but also because of the revenue likely to be raised from the development of Kaitak).

It also boasts the singular virtue of being, by all accounts, free of environmental problems, air approaches would be by sea, there would be no need for curfew restrictions and it would be an all-weather airport, not vulnerable to closure like Kaitak when severe typhoons blow up or when fog descends.

Objections from the Chinese Government are not expected to be a problem. The Government prefers caution,

however, since a new airport will cost about U.S.\$ 1bn.

If a new airport is to be built, it will almost certainly be at Cheklapkok, a small island to the north of Lantau Island, and virtually equidistant from Hong Kong's central business district, Kowloon, the New Territories, the Portuguese colony of Macao, and China's three new export processing zones in the south of Guangdong Province—Shenzhen, Jihai and Shikou.

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are possible. They have hinted that they would prefer a new international airport on Chinese soil, perhaps just over the border from Hong Kong, which would serve both the Colony and Canton. The Macao authorities have also spoken of building an international airport—an idea which is unlikely to materialise in the view of the Hong Kong Government's deliberations.

On China's plans for an airport, a correspondent for the Far Eastern Economic Review recently observed: "To date, apparently, no official approaches have been made to the Foreign Office (in London) on the subject, and the Foreign Office says Hong Kong's proposals for Cheklapkok are not yet advanced enough for presentation to the Chinese."

Until the Chinese show some of their Hong Kong cards to the British, it is unlikely that the authorities (in Hong Kong) will even begin to consider sharing airport facilities across the border."

A precedent of sharing facilities has been set at Basel, where passengers use the same airport, with its immigration and customs procedures, whether they are travelling into Switzerland or France. Reservations are based not least on the fact that China does not share with either France or Switzerland a recent history of stability which would make it

a practicable, or even tolerable bedfellow, in such a joint venture.

The first phase of Cheklapkok would involve a single runway and would cover about 800 hectares (compared with 220 hectares at Kaitak).

The Hong Kong Government is thought to be poised to commission a comprehensive consultants' study at an estimated cost of HK\$ 100m (£13.02m). This involves HK\$ 25m for a detailed airport design and HK\$ 100m for land and ocean surveys around Cheklapkok. The seabed is known to be covered with loose mud and will need to be dredged. The remaining HK\$ 25m is for various associated costs, so far unspecified.

The new airport is expected to have a capacity of at least 15m passengers a year. Provision for a second runway has been made, which would raise capacity to 25m.

Closely linked with plans for the new airport are plans for the development of Lantau Island, the largest in the colony. This would involve a bridge linking Lantau to West Kowloon on the mainland across two small islands—Tsingyi and Mawan. It would also involve substantial industrial and residential development of the island, perhaps including a light rail public transport system.

If the airport plan is shelved, the Government seems likely to develop Lantau anyway. The colony is otherwise likely to exhaust all its available real-

dential land by 1985 and urgently needs to relieve the congestion of manufacturing industry close to the urban centre of Kowloon.

A major problem over the new airport has always been that of how it might be financed. According to a recent report in the Far Eastern Economic Review: "The decision does not hang on need, but on financing. According to the Foreign Office, a two-runway airport would take between seven and 10 years to complete and cost about U.S.\$ 1.4bn. The question is whether the Hong Kong Government will be able to guarantee creditors that the loan will be amortised after 1997."

Implicit here is that the Government will not be able to raise the cash needed for the airport unless the issue of Hong Kong's lease (which expires in 1997) is satisfactorily resolved. This is simply because the sum to be raised is so large, that it could not possibly be paid off before 1997.

Government officials argue that it is not essential to resolve the lease issue. They claim that a large proportion of the cost of developing Lantau and the airport could be covered from the proceeds from the development of Kaitak once the present airport has been closed. They also argue that a large income will be generated from the sale of building and development rights on Lantau once it is opened up.

David Dodwell

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Booming tourist industry could be hit by rising cost of travel

HONG KONG'S tourist industry has been riding on the crest of a wave during the past two years, with tourist spending up by 25 per cent a year, and hotels full to bursting. But there are worries over the horizon, mainly over the effect rising fuel prices will have on the price of an air ticket. It could mean the end of the boom. More than 2.2m tourists passed through Hong Kong in 1979—about 10 per cent more than the previous year. But their spending went up by 25 per cent, taking total receipts

up to HK\$6.38bn. Tourist revenue has doubled since 1975. The value of tourism to the economy has been in dispute. Tourist Authority executive director Mr. John Pain calculates that tourism contributes 7 per cent of GNP, and 11-12 per cent of exports. But the report of the Government committee on diversification, published late last year, argued that goods and services consumed by tourists had a high import content, suggesting that domestic income generated was less than implied by the raw figures.

Whatever the arguments, the figures have to be treated with care. Hong Kong's tourist price index rose 10 per cent in 1978 and almost 19 per cent last year, so the real growth in tourist spending has been in single figures.

Around 23 per cent of Hong Kong's visitors come from Japan, and a further 20 per cent come from neighbouring countries in South-East Asia. About 14 per cent come from the United States, with under 8 per cent from Australia and New Zealand and a tiny 4 per cent from the UK. Taiwan, usually a major source of tourism, has slumped in importance over the past year, as the authorities have cut back hard on visa approvals.

Highest spenders

The Japanese stay for the shortest average period—about 2.6 days—but are the colony's highest spenders on a per diem basis, at almost HK\$1,200 a day. Overall, visitors average a stay in Hong Kong of 3.63 days, and spend a total of HK\$2,677.

The Tourist Authority warned that these figures were very approximate, and probably underestimated, since spending data are gleaned from spot interviews with tourists as they depart the colony. Many visitors are wary of detailing how much they spent, a Tourist Authority spokesman said, often because they fear information is being gleaned for tax reasons.

Just why tourists come to Hong Kong depends on the country from which they come. The Japanese spend almost 80 per cent of their cash in the shops, on tax-free electronic goods, cheap textiles and the many other consumer products for which the colony is renowned. The average tourist spends just 83 per cent of his money this way, with a larger proportion normally going on hotel bills and eating out.

For many Japanese, a visit to Hong Kong will be linked to a stopover in the neighbouring Portuguese colony of Macao, famous for its gambling and night life.

For visitors from Australia and New Zealand, who stay longer than any other group—an average of 4.8 days—Hong Kong tends to be one stage of a wider tour around South-East Asia. In the past it was seen as a taste of China, but now that China has opened up to tourism, it is a stepping stone on the way in and then on the way out again.

In the short term, there seems to be no doubt that Hong Kong stands to gain from tourism into China. Not only is the colony the perfect stepping stone, but, as one commentator noted: "China is still very sparsely populated, and so it can be a great relief to come out and relax in the bright lights and easy-going atmosphere of Hong Kong."

Mr. Pain sounded a note of caution, however: "Hong Kong is a destination in its own right and must remain so."

"We only provide access to China, then within five years we will just be a passageway. People will stay for a night, maybe two."

"We have to acknowledge nevertheless that it is a new attraction on our border. Being a Chinese population here in Hong Kong, we are very interested in the mainland, and every effort is being made to co-operate with them. We want to make sure that our plans are in line with those for the development of tourism in China."

As far as John Pain is concerned, tourists still do not stay long enough: "After 24 days, there is a sharp drop in shopping, but tourism isn't just a matter of shopping. We want a visitor to find an interesting package here so that he will come back and recommend Hong Kong to his friends. We want visitors to leave the colony saying they were not here long enough."

"Ironically, if a visitor stays for five days, then he usually wants to stay longer. If he stays for only two nights, then he leaves thinking he has seen and done it all."

Hong Kong's hotels are full to the brim. The best hotels claim occupancy rates of between 90 and 95 per cent, compared with a world average of less than 75 per cent. This is in part a result of an effective moratorium on hotel build-

ings ever since the tourist slump following the 1974 oil price rise. The total of rooms available has been virtually static since 1974.

New hotels are soon to be opened, however — three this year and a further six in 1981. So occupancy rates may soon be destined to fall. Hoteliers have a nagging worry that new hotels are mushrooming just at the time when a tourist downturn is imminent.

Modest plans

The fear is not only that the latest spurt in oil prices will force up the cost of air travel to a point where the number of tourists flying through Asia will slump. Economic recession in the United States, and the ripple effect this is likely to have in other countries around the world, is likely to hit people's wallets, forcing them to make more modest holiday plans than they might have done a year ago.

Many in Hong Kong are confident that the colony will escape relatively unscathed. They point to increasing wealth in South-East Asia, and the growing proportion of visitors passing through Hong Kong from these countries. They point to the still-high economic growth being achieved in the region.

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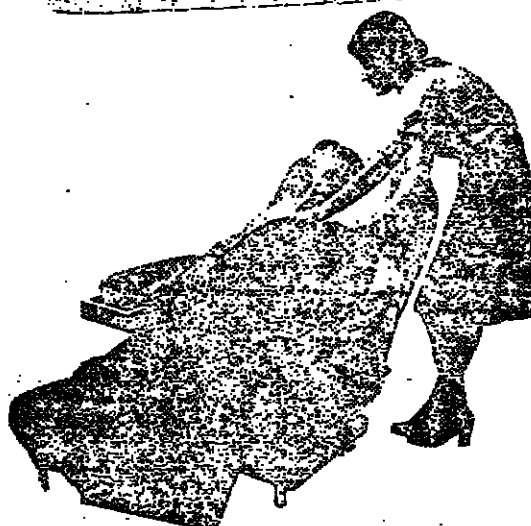
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HONG KONG XVI

Immigrant influx keeps wages down

THE industrious and inventive labour force of Hong Kong had a mixed year. Few were unable to find work thanks to record demand for the colony's exports and a boom in the domestic construction industry. But those workers who might reasonably have expected a fairly rapid growth in wages were to be disappointed, largely because of the massive addition to the labour force resulting from an enormous influx of immigrants, both from China and Vietnam.

During the year an estimated 140,000 legal and illegal immigrants entered the colony from mainland China, a large proportion of them finding their way on to the labour market. In addition to this, on the last day of 1979 there was a total of 55,705 Vietnamese boat people still in Hong Kong waiting for resettlement. Of the boat refugees, around 20,000 took paid jobs during the year. Together they must have increased the labour supply by around 7 per cent.

The influx raised real fears among many in Hong Kong that a decade of economic and social achievement might be undermined. Communal stability, impaired and plans for further progress thrown out of gear, and yet there were those in the colony who welcomed the invasion as a much-needed source of cheap labour at a time when a booming economy was suffering from a serious labour shortage.

There is little doubt that the influx kept wages down. The level went up by around 10 per cent in real terms from September 1977 to September 1978, but fell to around 3 per cent in the same period last year. Even with this enormous addition to the labour force, unemployment in September last year was only 75,000 or 3.4 per cent of the workforce.

In September, 1979, the average working wage for workers engaged in manufacturing was HK\$40.39 (about £3.50) a day. Some 75 per cent of workers in manufacturing received daily wages of HK\$29.95 (about £2.60) while some 25 per cent received daily wages of HK\$45.26 (about £4) or more. The average wage for a manufacturing workers last year was therefore around £21 a week.

While this massive influx of cheap immigrant labour undoubtedly helped to maintain Hong Kong its extremely competitive position on world

markets, others were less sanguine about the mid- to long-term advantages of allowing continued immigration on this scale. Aside from the enormous strains imposed on limited Government social services like education and housing, some analysts are worried that the massive growth in the unskilled workforce may skew the natural development of the colony's economy.

"There's a recession coming and its bound to affect us. We certainly can't expect a repeat of last year's extraordinary growth," says an official at Hong Kong's Development Council. "Hong Kong can no longer afford these massive influxes of people from China. We are currently attempting to diversify our industry and increase the skills of our workforce to prepare for the time when we are no longer a cheap labour economy. What we should be aiming for now is a quality not quantity," he says.

Others, while less outspoken, view the immigrants as very much a mixed blessing. Mr. N. Henderson, Hong Kong's Commissioner for Labour, admits that the construction boom may have been physically impossible without the extra supply of labour that he points to what he calls some "striking disadvantages."

"They don't seem to have the same degree of motivation as past influxes of immigrants. Their lack of training, experience and application has undoubtedly given us a number of problems. The number of accidents in the construction industry in particular, has shot up. New immigrants are just not used to modern building methods," he says.

Child labour

With child labour now largely a thing of the past, industrial accidents have become one of the black spots on the industrial scene in Hong Kong. Last year there were 361 deaths and over 66,000 injuries while people were engaged in their work. Without doubt, construction sites are the biggest death traps. Nearly 40 per cent of the fatalities and over a quarter of the accidents occurred at these, and the number has been growing. In the five years to end 1979, construction site deaths grew 132 per cent while the number of accidents rose even further by 189 per cent.

"Construction is our most hazardous area, and this is certainly made worse by the high proportion of unskilled young immigrants flocking to our construction sites in search of work. The latest influx is very reluctant to accept discipline —

alcohol at lunchtime certainly contributes to the accident rate," says Mr. Chan Shiu Lap, Hong Kong's chief factory inspector.

The reasons for the high accident and fatality rate are several. Fines are too small, the factory inspectorate spread too thinly on the ground and both managers and workers prove resistant to rules that they feel will slow output.

"We hope to get a budget of HK\$1.5m next year for a safety at work publicity campaign. The key is to change attitudes, and that can be a long process. Just as important is the education of Hong Kong's judiciary. Despite the fact that the maximum fine for failing to observe Government safety regulations is HK\$10,000, average fines last year were only HK\$700. This is just not a deterrent," says Mr. Lap.

The plan is to double the number of factory workers from the present 126 over the next five years, and maximum fines should go up to HK\$50,000 some time this year if lobbying from the inspectorate is successful.

One of Mr. Lap's complaints is that the unions have done little to promote safety at work. "In Britain the unions have been up front fighting not only for improved wages but a whole host of labour, factory and

safety legislation. Here they do little more than shout. The result has been that nearly all the advances have come from Government initiatives," says Mr. Lap.

While Hong Kong's weak and divided unions have undoubtedly helped to maintain the colony's excellent record on industrial disputes, the reverse side of the coin has been that protection of very large poor and underprivileged section of the territory's working population has been largely left to Government.

Under pressure from Britain, initially over the colony's appalling record for child labour, the administration has made considerable progress in the last decade. Since 1969 a total of 152 items of labour legislation have been enacted to provide Hong Kong's workers with at least a minimum of protection on redundancy, compensation, industrial disputes, paid holidays, safety and working hours.

Though much of Hong Kong's economy must still remain outside the control of Government labour legislation it would be fair to say that the colony no longer generally reflects the image of Dickensian London it did just over a decade ago.

R.C.

Demand for expatriate executives falls as locals climb the ladder

IN THE high summer of Britain's colonial days, the first son in any self-respecting landed family would expect to inherit the family estate, the second to make his career as an army officer, and the third would have to go out into the world and seek his fortune in the colonies.

These colonial days are long faded, though remnants remain in a place like Hong Kong, with its colonial administration and its trading houses — "hongs" — like Jardine Matheson, Swire, Hutchinson Whampoa and Hong Kong Land.

These form the basis of a still-substantial expatriate community. Their ranks have been joined by executives of the new colonisers — the multinational corporations and international banks.

But there are strong indications that demand for expatriates is falling. Locally-educated people are winning more senior positions, and there are even signs of a greater reluctance on the part of executives from the West to leave home.

Many causes are conspiring to bring about this change. In Hong Kong's Government, which employs over 120,000 people, just 3,118 are expatriates, even though there is a specific commitment to maintain a certain expatriate presence in the senior ranks of the Administration and the police force.

A policy of "localisation" — turning jobs over to local people once they have the necessary skills — has been in force for the better part of two decades. Outside the Administration and the police, only experts in short supply locally are recruited from overseas — most of them on contract. These include quantity surveyors, magistrates, architects, town planners, geotechnical engineers, senior lecturers, doctors, even bomb-disposal officers, and other skilled workers and professionals.

One consequence of localisation is that it is no longer cheaper to employ a local than an expatriate. Salaries are the same, and so are many job benefits. However, expatriates have an extra week's holiday, air travel home is paid every year, and housing provision is more comprehensive than for Hong Kong employees.

Reluctance

The multinationals — many of them American — are localising as fast as is practicable. According to Mr. Tom King, Hong Kong director of Korn Ferry International, the world's largest executive search organisation: "No-one is going to bring out to Asia expensive expatriates to do a job that a local can do equally well."

Along with a falling demand for expatriate staff below the most senior levels, Mr. King cites increasing reluctance on the part of many U.S. executives to come out to Asia.

"U.S. tax law punishes the executive working abroad by insisting that he is taxed both at home and abroad. Such double taxation counts as a significant disincentive to going overseas."

"It is no longer cheaper to live in a place like Hong Kong than back in the U.S. A recent business international survey indicated that Hong Kong was as expensive as either New York or London."

"Inflation in the U.S. means that executives are reluctant to sell their homes for fear of not being able to buy back in when they return. Fed U.S. companies pay for an executive to keep his home while he is abroad. Upheavals in Iran, Afghanistan,

Kampuchea and South Korea give executives the impression of an increasingly unstable and hostile working environment overseas.

"Even more important, a recent study sponsored by Korn Ferry and California study revealed that overseas experience is rarely recognised as valuable on the route to the top. Executives leaving for postings overseas may have a nagging fear that they were moving out of the mainstream."

Against this backdrop, it is hardly surprising that Mr. King has found it more difficult in recent years to attract executives to work in Hong Kong. Locally recruited executives can fill the breach to some extent, but by tradition, Chinese employees have proven reluctant to travel abroad — and multinational companies need executive mobility.

Asian career

Hong Kong's old-established trading houses — "hongs" — face different problems. Unlike multinationals, their centre of gravity is in Hong Kong, and they aim to offer a career in Asia.

A company like Jardine Matheson, which employs about 280 expatriates out of a total workforce of 2,800, nevertheless reports increasing difficulty in recruiting expatriates in the right quantity and of the right calibre.

They cite rising unemployment at home, which makes prospective employees reluctant to throw up secure jobs, a strengthening pound, which has seriously eroded the value of Hong Kong salaries in terms of their sterling value, and the recent fall in tax levels in Britain, which has induced potential recruits to stay in Britain to see if new policies adopted by Prime Minister Margaret Thatcher make it easier for them to earn their fortunes at home.

All argue that Hong Kong is not only much more expensive but that the quality of life in the colony has dropped. Mr. Derek March, Britain's Trade Commissioner, said: "Higher costs are becoming a serious problem, particularly the cost of rents. Pressure on available services is high and access to the colony's leisure facilities has become much more difficult."

First, expatriates have to adjust to high-rise living and rents that are out of this world — HK\$10,000 per month is thought reasonable for a three-bedroom flat in the modest mid-levels of Hong Kong island. Then they have to adjust to congestion. This bears in on the city streets, the roads, and the beaches. With population densities reaching 144,000 per square kilometre, and averaging 25,000 per sq km, escape from the thronging crowd is a virtual impossibility.

For a married man with children, education can be a nightmare. Most large foreign companies buy debentures which help to ensure school places for their children, but even then they can expect 40 children per class.

Leisure facilities are also limited. Waiting lists for clubs vary from three years to a decade. Again, debentures offer a partial solution, but few multinational companies have enough debentures to provide for all of their expatriate staff.

Fortunately, Hong Kong's low taxes — a flat 16 per cent — make it unnecessary to offer higher basic salaries. But an executive in Hong Kong is likely to cost three times his basic salary. An

executive in Singapore evidently costs about half as much.

Many foreign companies compensate for the drawbacks of working in Hong Kong by providing perks. Debentures have already been mentioned, ensuring membership at clubs. A company like Jardine also offers employees use of two junks, a launch, a 35-foot yacht, two cottages on the island of Lantau, one in Macau and one in Shikou on the Chinese mainland.

Salaries can also be tremendous by British standards. A

company like Hong Kong Land will pay around £24,000 for a top man, with a bonus of between £15,000 to £20,000 on top of that.

But they are evidently taking a long hard look at the kind of mix they need. When Korn Ferry started operations in Hong Kong in 1975, all of the executives it recruited were expatriates. By last year the figure had fallen to 20 per cent and looks likely to settle at around that level.

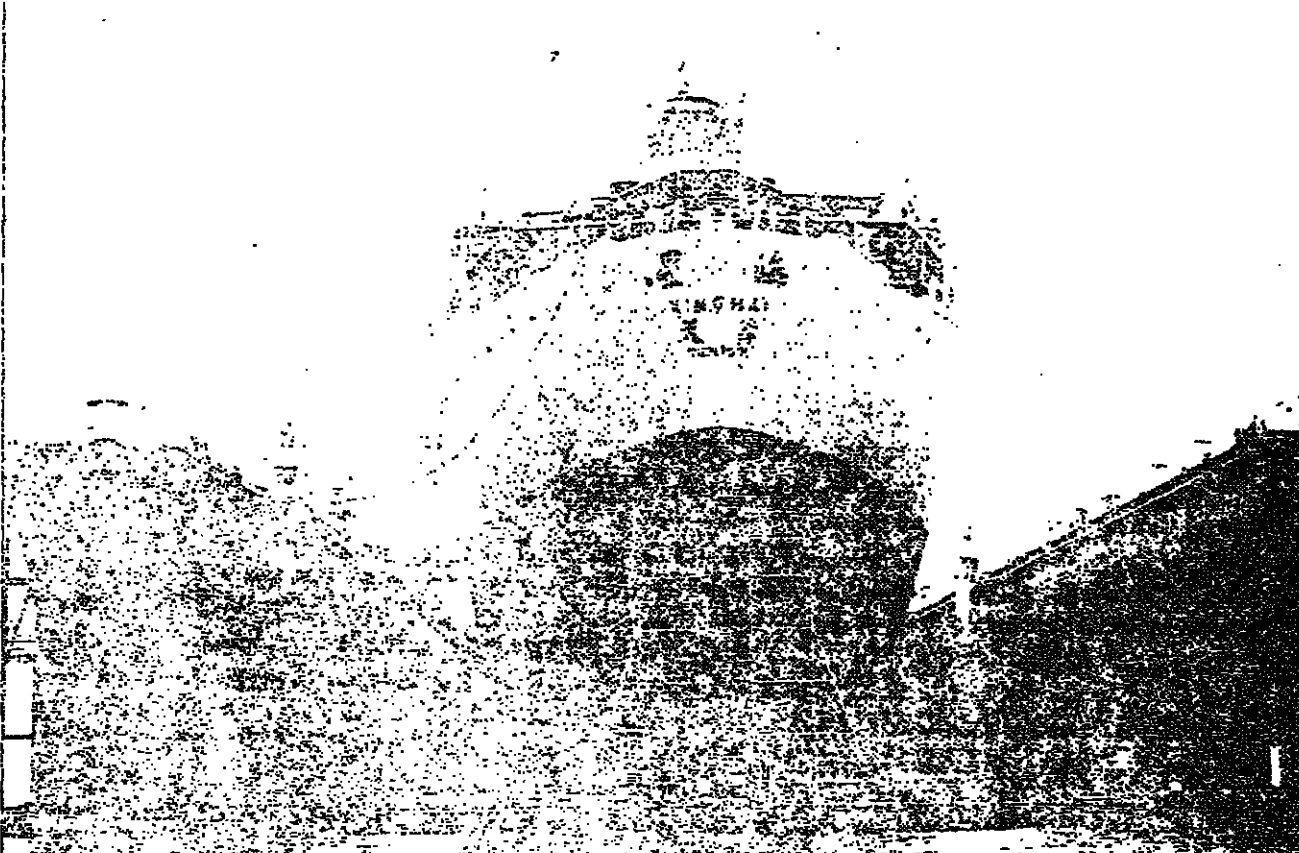
D.D.

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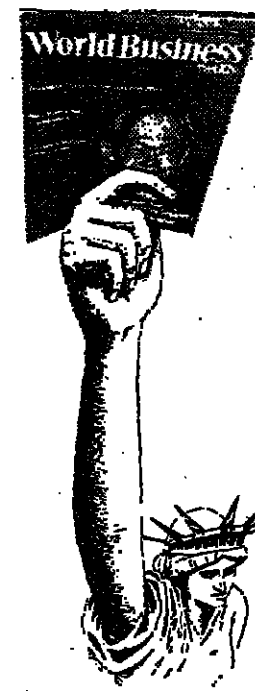
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Big developers push price of property to new heights

LAND AND property have created more Hong Kong billionaires — not to mention several thousand millionaires — than all the other commercial and industrial activities combined. In the past year, however, property has acquired almost a mystical aura, becoming the local substitute for the philosopher's stone which would turn brass into gold.

But this is not surprising, since property has been at the heart of two major power plays over the past year — plays which have significantly altered the balance of commercial power in the territory.

Last October, Cheung Kong — vehicle of the king of local property developers, Mr. Li Ka-shing — rocked the establishment by acquiring the Hong Kong and Shanghai Banking Corporation an effectively controlling stake in Hutchison Whampoa, one of the leading European-run "hongs." Cheung Kong was able to do so because of the massive profits and even larger cash flow generated by several major property developments.

Perfect timing

Mr. Li's timing of the market had been well-nigh perfect, enabling him to get into some key central district commercial developments around 1976, just before rents and capital values began to move rapidly upwards. However, Cheung Kong still lacked sufficient land to provide a steady flow of development opportunities. Hutchison had the land, and Mr. Li had the cash.

Land also proved an irresistible attraction for shipping magnate Sir Yue-kong Pao, whose empire was previously confined to the sea. He outbid and outmanoeuvred the Hong Kong Land Company, part of the Jardine Matheson empire, to gain an effectively controlling 49 per cent stake in the Hongkong and Kowloon Wharf Company.

So keen was Pao to gain con-

trol of Wharf and its huge holdings of former dock and warehouse land in Tsimshatsui that he ended up paying HK\$2.2bn for a mere 20 per cent of the company. The investment will give him a dividend yield of just 1.3 per cent this year.

But Pao has not been alone in bidding up prices to levels which even a year ago would have seemed unthinkable. Another big buyer has been the Carian group, a wealthy consortium of overseas and local Chinese investors. Carian has spent more than HK\$2bn in the past year, including HK\$1bn for a central district office block, Gammon House. Hong Kong Land, which had paid only \$700m for it just a year earlier, was losing some HK\$500m annually on the difference between its rental yield and the interest on the money it had borrowed to pay for it.

Land prices have seemed largely immune from the impact of rising interest rates. There have been especially sharp increases in Tsimshatsui, where several major sites have recently been sold by the Government. Early this year, one such prime site fetched HK\$16,000 a square foot, double what a similar one had done in mid-1979.

Prices of this order at a time of high interest rates clearly indicated that buyers were financing their deals from booming development profits rather than borrowings. However, in the longer term, values slightly were bound to be affected by high interest rates, rising construction costs, and the government's decision to insist on immediate full payment for auctioned land in place of an instalment system.

Early this year it was beginning to become apparent that the small to medium-size residential flat market had peaked. Average flat prices had risen 20 per cent in 1979 to HK\$4,337 a square metre, and jumped by

70 per cent in 1979. Prices at year's end showed even bigger gains as speculation reached fever pitch. But, to quote the Government's annual property review: "Prices had reached levels which, together with historically high interest rates, had removed from many families any hope of obtaining even a modest home of their own."

The fever would have run its own course anyway but was further cooled by the extension of rent control legislation to cover several categories of lettings hitherto outside its scope. Though new rental levels continued to climb, the fact that rent increases in almost all premises are now subject to an annual ceiling of 10 per cent has dampened investor enthusiasm.

Doubled

The drop in values for small to medium-size flats did not apply in large, luxury accommodation. Demand in this area, especially for rented accommodation, remained high because of the continued influx of expatriates into the banking and China trade sectors. Rents at the top end of the market, which had averaged HK\$31 per square metre in 1978, had doubled to HK\$63 by the end of last year. Rents of small flats rose only 70 per cent over the same period.

The extension of rent control means that all the marginal demand pressures are now concentrated in a small sector of the total residential property market. Half the population lives in Government housing, where rents are a fraction of those in the private sector, and most of the rest are either in owner occupation or in the private rental sector, which is subject to controls.

Demand pressures at the top of the residential bracket have been paralleled in the commercial sector with intense pressure for high quality central offices. According to Jones Lang Wootton, prime office

rents in the central district have now reached HK\$17 per square foot per month, compared to HK\$12 a year earlier.

Similar percentage increases have been noted in Tsimshatsui and Wanchai/Causeway Bay. The latter area has risen especially fast and top rents there are now said to be slightly ahead of Tsimshatsui. But rents in Tsimshatsui are likely to rise faster with the advent of the Mass Transit Railway.

Both areas are still 30-40 per cent cheaper than Central. Opinion is divided as to whether office rents have reached a plateau, or will start to decline as large amounts of new accommodation—about 3.2m sq ft—become available. This includes developments above MTR stations, which were mostly pre-sold on a floor-by-floor basis. As a result it is not entirely clear whether firm tenants are lined up for all of them.

During the 1973 boom, office rents peaked at HK\$10 per square metre and then fell back to HK\$7. Such a sharp fall is unlikely this time, but some slippage appears possible.

Industrial premises, at least in the New Territories, are already in substantial oversupply despite the rapid growth in manufacturing output last year. Rents last year rose only 12 per cent on average. A total of 2.5m square metres is likely to be completed during 1980-81, adding some 25 per cent to the stock.

Looking further ahead values and rents of industrial premises are likely to be held down by the determination of the Government, under pressure from industrialists, to make more land available to reduce land use disincentives to industrial diversification. Another factor may be the opening up of the New Territories and Shing Mun area to the building of China's first major airport, which may come to mean a loss of land to industrial uses.

P.B.



School children at Sha Tin, one of Hong Kong's new towns

Education: 100 years' progress in a decade

THE extraordinary thing about Hong Kong's education system, like the colony itself, is how far it has come in such a comparatively short period of time. Less than ten years ago it was at least a century out of date. Now one might perhaps fairly compare it with the education system in Britain at the time of the Second World War.

It was not until 1971 that primary school education was made free, compulsory and available to all Hong Kong children between the ages of six and 11. Before that Hong Kong had an unsavoury reputation for sweat-shop child labour similar to the kind of exploitation that occurred in Britain during the industrial revolution. The headmistress of one of the poorer Chinese-medium secondary schools says: "One of the reasons why we eventually got free primary school education was that the system was driving the kids on to the streets, into crime or into jobs where they were open to abuse. Hong Kong was widely condemned as a proponent of child labour for many years—something which obviously comes to a halt if you put the children into school."

Less than 12 months ago the government of this tough, competitive, laissez-faire society

hauled the colony a good bit further into the 20th century by making secondary education up to the age of 14 compulsory as well as free. This means that every child is now entitled to nine years free schooling. From this year the government will be given powers to enforce school attendance up to the age of 15 or completion of form three.

Next year the system will receive another jolt when between 60 and 70 per cent of form three pupils—an estimate of those who are bright enough to pass the exam—will be provided with free form four and form five places. Thus no child in Hong Kong, provided that he has the ability, will be prevented from passing the general certificate of education through lack of money or places.

Quality next

With the enormous expansion over the last ten years, the emphasis has almost inevitably been on quantity rather than quality. Mr. Kenneth Topley, Hong Kong's director for education since 1974, says: "Since the beginning of the last decade access has taken precedence—everyone a chance to get into education. We now hope to be getting down to improving its

quality. Until now there has been a serious shortage of adequately trained teachers. Often the only way the government has been able to fulfil its commitments has been to buy places at private schools, over whose standards it may have little control.

The government has embarked on a major school building programme (33 new secondary schools are planned for completion by 1981). But its continuing reliance on the private sector—some schools being built in the new territories, are being offered to the highest bidder—has caused some to ask whether the Department of Education tried to run before it could walk.

"People have been offering as much as HK\$250,000 (£22,000) for the right to run some of the new primary schools in the new government housing estates. This puts education into the hands of profiteers and speculators," says Mrs. Elsie Elliott, urban councillor and campaigner for social reform.

The problem of finding enough adequate places both at primary and secondary level has been compounded by the fast growth of Hong Kong's population. From around 500,000 after the war, it had

grown to about 5m in 1977. The recent decline in the percentage of the population under 15 has been largely offset by the growth in numbers, while successive waves of immigration have sometimes played havoc with educational planning.

One of the less publicised problems has been that with a majority of secondary-school subjects taught in English, many children from Chinese primary schools have got badly left behind. Mr. Charles Lowe of the University of Hong Kong education department says: "Many of these children have inadequate English, but they want to learn the language in order to maximise job prospects. The educational price of this influx into second education has been very high."

The intensely competitive nature of Hong Kong society permeates every aspect of life in the colony, including education.

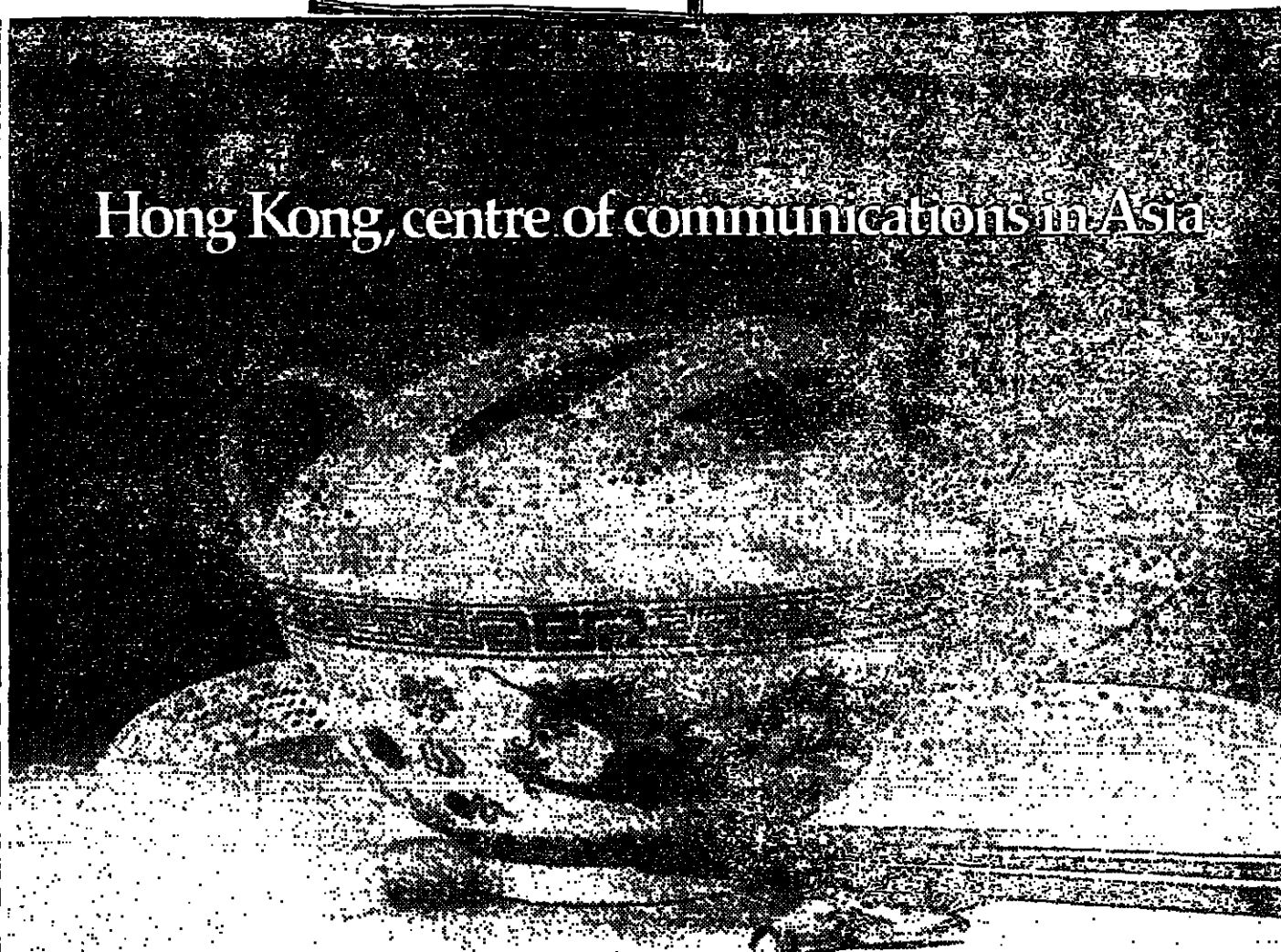
Powerful

Almost 200,000 children between the ages of three and six are enrolled in Hong Kong's 840 privately run kindergartens. With more than 80 per cent of the colony's children below school age in kindergartens these schools can and do have a powerful influence over the development and futures of local children. Some of these kindergartens employ pre-entry tests to preserve their reputations, and the overwhelming majority concentrate on preparing children for the primary school entrance exams. Thus in Hong Kong the examination results of five and six year olds more often than not set into motion the course of their whole school life.

The Government's education department, at least, is keenly aware of the problem. A green paper has recently been published in which the Government makes a number of proposals to tackle the key issues. The green paper aims to get as many kindergartens as possible to accept a Government subsidy in return for allowing it some say over standards—which in many kindergartens badly need to be raised. The paper suggests, among other things, the abolition of kindergarten entrance interviews and tests, more emphasis in learning by doing, a limit of four hours a day at school, and a minimum age for entry of three years eight months.

R.C.

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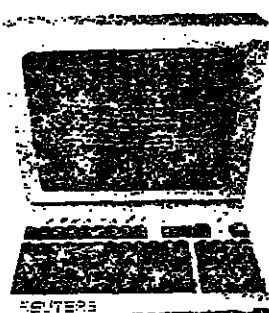
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HONG KONG XVIII

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SIR PATRICK ABERCROMBIE, who drew up plans for rebuilding London after World War II, said 30 years ago: "In comparing Hong Kong with many other places, two special characteristics of its problems at once emerge... first the shortage of land for any sort of urban expansion, secondly an unlimited reservoir of possible immigration."

Sir Patrick hit the nail on the head, and Hong Kong now boasts congestion problems and immigration pressures which defy the imagination. These persistent problems have been the catalyst for one of the most far-reaching home-building programmes in the world.

Hong Kong's population has grown from 600,000 in 1945 to around 4.9m today. On a land area of just 1.44 sq kms, most of it barren mountain slopes, congestion in one part of Kowloon reaches 144,000 per sq km. The population density for the colony is almost 4,500 per sq km and over 25,000 per sq km taking into account only Hong Kong Island and Kowloon. This compares with a density of 44 in Malaysia and 22 in the U.S.

Housing problems were clearly such that piecemeal solutions were quite inadequate. Two catalysts in particular galvanised the authorities to take precipitate action: first, a huge fire in Shek Kip Mei in north Kowloon on Christmas Eve 1953 which obliterated one of the colony's largest squatter settlements, leaving 50,000 homeless; and second, three major immigrant influxes from China. The first wave came in the late 1940s, the second in 1962, and each brought around 1m Chinese flooding into the colony in a matter of months. The latest wave, still in progress, has brought a further 250,000 people into Hong Kong.

Emergency

After the fire, an emergency housing programme was begun—a programme which was only formally abandoned in 1973. Twelve resettlement estates were built. Between then and 1962 18 low-cost housing estates were also built.

By the mid-1960s, plans for a more dramatic solution—whole new towns—were taking shape. Not new towns as imagined in suburban England, but full-blown high rise metropolises. The "new town" of Tsuen Wan, west of Kowloon, is destined to grow to 1m people, while two others, at Sha Tin and Tuen Mun, will grow to 500,000 each. A number of smaller towns, intended to grow to between 30,000 and 250,000, are also planned in the new territories.

In 1972, Hong Kong governor Sir Murray Maclehoose announced a 10-year public housing programme which would cost more than HK\$30bn and would provide homes for almost 2.5m people.

By early this year, the colony's housing authority had 400,000 tenancies, with a building programme aimed at providing an extra 35,000 homes a year (5,000 of these for private purchase). In the new towns, more than 70 per cent



Glyn Gwynne
Sha Tin, one of the colony's new towns and (below) Tsang Tai Uk, the old walled village around which it is being built



of the population lives in public housing. In the colony as a whole, the figure is 40 per cent.

If population growth projections made a decade ago had not been rendered irrelevant by the constant-immigrant influx, such a major building programme would have answered most of the colony's housing problems. As it is, however, about 140,000 families are still on housing waiting lists, and unless they opt to go to outlying areas of the colony, they can expect to wait around seven years for accommodation.

Between 1979 and 1984, the housing authority expects to build another 150,000 housing units. But in the same time a further 215,000 families are expected to join the queue for new homes.

Creation of such large cities from scratch inevitably causes social and infrastructural problems. For a start, families have had to adjust to high-rise living. They have had to move into cities that look more like building sites.

As Mr. David Akers-Jones, Secretary for the New Territories, recently acknowledged: "Now our new towns are largely dust and landscape defiled by earth-moving machinery, with here and there a glimpse of the fountains and gardens of the future amidst pile drivers and scaffolding of the present."

Social and recreational amenities have not grown apace with residential accommodation, and it will be several years before they "catch up." Industries too have been

slower to arrive. In a city like Tsuen Wan, which has already a well established manufacturing centre set next to Hong Kong's main container terminal, Kwai Chung (which has the fourth highest cargo throughput in the world), this has not been a problem.

But Sha Tin has faced serious problems. Due to its particular location, atmospheric pollution is likely to be a severe problem unless strict controls are put on local industries. At the same time, acute sewage disposal problems rule out certain kinds of industry from setting up locally.

As a result of these problems, very little industry has yet been attached to this new town, which is due north of Kowloon on the main route to the Chinese border. It has become a dormitory town for commuters to Kowloon or Hong Kong Island—a serious drawback for planners aiming to turn Sha Tin into a self-contained and integrated community.

Transport problem

A further problem has been to develop road and rail links fast enough to guarantee easy access to the new towns. Six lane highways now link Kowloon with Tsuen Wan and Tuen Mun, and one is being built to Sha Tin. A second vehicular tunnel has been carved through the Kowloon foothills.

The Kowloon-Canton railways is being electrified, double-tracked and generally modernised—at an estimated cost of HK\$2bn—and is due to be

complete by the end of 1982. The mass transit railways opened amid fanfare last October, is also to be extended east and west from Kowloon, easing business and commuting access to the new territories.

But as infrastructural development has lagged, so development of the new towns has been uneven. Very little private property development has yet taken place, mainly because few of the colony's rich families are willing to move away from Hong Kong Island or Kowloon until communications are improved. The new communities are therefore not yet "balanced" as the colony's planners would like them to be.

These are all genuine and justifiable problems, says Mr. Akers-Jones confidently. He adds: "We know how, within the constraints of high density development, we can create a satisfying and stimulating environment."

One persistent worry has been the alarming rise in land and property prices, much as it is fostered by speculative buying in recent years. Here, the Government has split loyalties. On the one hand it has a commitment to provide housing as cheaply as possible to the colony's poor. On the other, it relies on land sales to fund about 30 per cent of its budgetary spending and therefore has a vested interest in keeping prices high.

In response to public warning, the Government recently imposed controls on the cost of private rents, limiting increases to just 20 per cent every two years.

For the poor (no family earning more than HK\$3,185 is entitled to public housing), rents have been kept fairly steady. About 55 per cent of families in public housing pay out less than 6 per cent of their income in rent. For the 6.9 per cent who pay out 16 per cent or more of their income in recent rents, funds are paid out.

Since 1976, the Government has had a policy of building homes for sale as well as for rent. The first, come onto the market in 1978. They are now in six estates, and a total of almost 9,000 have now been completed.

The Housing Authority plans to build about 5,000 a year, selling the flats twice a year and limiting sale to families with earnings of HK\$5,000 a month or less. Since they sell the flats at cost price, they are between 25 and 30 per cent cheaper than similar flats bought from private developers.

The sale of leases in the new territories is soon likely to raise a delicate new problem. Banks traditionally offer more gages for repayment over 15 years. But by 1982, they will not longer be able to do so without allowing repayment beyond the date when Britain's lease of the territory from China lapses in 1997. The Government's "build for sale" programme could founder unless the colony's lease problem is resolved.

Squatters: Price of laissez-faire

HONG KONG is lauded throughout much of the Western world as perhaps the most shining example of a truly private enterprise system. Evidence of this success, say the colony's admirers, is the fact that Hong Kong's economy has, against considerable odds, continued to grow at a rate that must certainly be the envy of much of the developed and under-developed world.

The colony's free-wheeling fundamentalist laissez-faire brand of capitalism might be a roaring economic success, but the social cost can be very high. Not far from the mile-long glittering facade of Nathan Street—a shopper's paradise that makes London's Oxford Street look positively provincial—lie acres after acres of squalor and apparent destitution.

Bunched precariously on eroded hillsides, perched on top of 20 storey skyscrapers and floating platforms in the harbour, spread across old disused quarries and among giant housing complexes, are the fragile huts of nearly a million squatters. They live, like others of their kind in Rio, Jakarta and Calcutta, in makeshift structures of hardboard and corrugated iron, wherever there is an available space.

Mr. Donald Liaou, Hong Kong's Secretary for Housing, estimates that there are currently 750,000 squatters through the colony, but admits that this is only an educated guess. The last squatter survey, in 1976, was limited to a count of the huts and not the number of people living in them. With the enormous influx of refugees in-

to Hong Kong in the last 30 months some believe the figure could top the million mark.

But even if one accepts the conservative estimate of 750,000, this still means that around 15 per cent of Hong Kong's total population are squatters, often living in the most squalid conditions with no proper sewerage and certainly no legal right to the land they have appropriated.

At first sight—and most casual visitors to Hong Kong do not notice them—the squatter areas seem to explode the myth of Hong Kong's success.

The life of the average squatter is certainly not an easy one. A new squatter buys his illegal shack (current price around \$900) from a racketeer, often a member of a Triad gang which may have evicted a market gardener to obtain the land in the first place. He is then forced to steal electricity and water by illegally tapping an existing network that may be supplying a nearby housing estate or factory.

Having got so far, he runs the gamut of health hazards that accompany the lack of sewage and rubbish disposal. He also faces the immediate possibility of having his home knocked down by the Government's 1,300 strong squatter-control unit (over 73,000 squatters were moved to make way for new development in 1978 and 1979). And lastly he has to face the very real possibility that he might fall victim to one of the many fires that rage through squatter areas every year or one of the annual typhoons.

CONTINUED ON NEXT PAGE



5/9/80

Since the beginning of the 1970s Hong Kong has rapidly emerged as a financial centre for the Asia Pacific area region. The proof is provided by the presence of a large number of international banks and near banking institutions and the impressive growth of offshore loans. In addition, there is a large congregation of foreign non-bank financial intermediaries, such as insurance companies, brokerage houses, money brokers, unit trusts and mutual funds. The Hong Kong money markets have been described as the venue for financial roulette. For British investors well-versed and aware of the special features of the system they can be lucrative.

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HONG KONG XIX

Corruption: a cancer hard to eradicate

AN OBVIOUSLY corrupt Mister Fitts waddles across the screen and counts his ill-gotten gains. It looks as if he is bringing his way to more loot. But those whom he solicits report him, while a reassuring voice affirms that there must be no return to the bad old ways and days. Mister Fitts, clobbered. The viewer is enjoined to "Walk tall, report corruption."

This 30-second cartoon commercial, in both English and Cantonese, appears regularly on Hong Kong television. It ends with the complaints telephone number of its sponsor, Hong Kong's Independent Commission Against Corruption (ICAC).

It is obviously having an effect. After a slump in 1978, the number of reports received by ICAC is back to the 1977 level, the year which ended with the police mutiny against ICAC and the resultant amnesty for past corruption offences.

The number of complaints in the year following these events declined to 1,234 but in 1979 rose to 1,665 with a greater proportion being non-anonymous (961) rather than anonymous (704). Evidently the quality of the complaints improved. ICAC found 1,068 of the complaints worth detailed investigation. A record number of 294 persons were prosecuted as against 181 in 1978 and 272 in 1977.

Sixteen prosecutions were taken last year against those knowingly making a false report.

But while the television advertisements may encourage complaints they probably will not cure the disease — indeed, the greater the public awareness of ICAC's effectiveness, the more likely it is that the corrupt will become more devious, and difficult to detect.

Hong Kong itself, after all, became a colony because of one of history's more corrupt prac-

tices — the opium trade between the West and China. The city-state's tree-wheeling ways have had 138 years to take root. ICAC has only been on the job since 1974. Hong Kong's Chinese have abundant reason for being cynical about the ways of the world. Traditional Chinese, and also western, practices in this home of free enterprise do not always rest easily with moral ideas concerning and precise legal definitions of what is corrupt.

Above all, perhaps, there is to twist the message of the commercial, the tremendous social and economic pressure to walk tall by amassing some wealth, even if that means cutting some corners. ICAC references to "winning the hearts and minds of the population" are appropriate reminders of the terminology more usually associated with guerrilla warfare. "By far the most difficult task," says the 1979 annual ICAC report, "is to persuade the Hong Kong community as a whole that corruption is unacceptable. It must be stopped, and everyone has a part to play in stopping it."

Small part
This difficult task is handled by the community relations department of ICAC. The television commercials are only a small part of the department's effort. This spans the media as a whole, the education system, youth clubs, as well as government bodies and departments. Seminars and workshops are held to promote civic responsibility and awareness of citizens' rights. Specific projects range from creating a monopoly-style board game to carry the anti-corruption message, to preparing booklets on officials in Chinese history noted for their integrity.

The network of ICAC district liaison offices throughout Hong Kong is being further extended.

A research unit also conducts surveys of community attitudes. One recent survey indicated the continued need for educational effort and more television commercials: those surveyed perceived considerable virtue in those who were not corrupt but less virtue was ascribed to those who report corruption.

In order to get yet more positive perceptions and influence to future behaviour, the vital community relations work requires "vivid up-to-date examples of corruption which can be used to drive home the lesson that evil is still present."

Here, as elsewhere in Asia, the complaint is often heard that ICAC gets the small fry but not the big fish. Every complaint has to be investigated—and people are more likely to give convincing evidence of the small examples of corruption that impinge on their daily life rather than the larger examples of illicit wheeling and dealing.

But the latter cases are the ones that drive the anti-corruption message home. This year the conviction of Walter Boxall, the former property manager of the Hong Kong telephone company, will help towards this end. He was recently sentenced to four years in prison on 12 charges of accepting kickbacks, and five charges of conspiring to defraud.

The Boxall case was additionally useful as an example, given the longstanding Hong Kong "tradition" of the corrupt to flee with their ill-gotten gains. Boxall quickly departed the colony when ICAC was hot on his trail, but was subsequently extradited from Britain.

The reason Boxall's corruption was discovered reveals another little-known side of ICAC's work. This is the corruption prevention department (CPD) which advises on the ways in which the procedures and practices of Government

Departments, and public bodies, may be geared to reduce the opportunities for corruption in the first place. The trail that led to Boxall's ultimate conviction began when the corruption prevention department submitted a report on the procurement procedures of the telephone company.

Last year, the CPD submitted 59 reports on various aspects of administration and re-examined and revised 82 earlier reports. These cover a wide field ranging from the procedures governing land belonging to the Kowloon-Canton Railway to those used by the Inland Revenue for assessing profits tax, from the methods of the police in enforcing traffic laws, down to procedures used by the marine department to grant certificates of competency to owners of pleasure craft.

Some of the preventive work has wider relevance than just anti-corruption. Two of last year's analyses dealt with the issuing of certificates for Hong Kong exports.

One report concerned the certificate procedures of the Government, the other the practices of the five chambers of commerce and manufacturers' associations which are also authorised to issue certificates.

Eighty-four per cent of all Hong Kong exports are covered by certificates of origin which facilitate access to markets or allow preferential tariffs to be claimed. As the ICAC annual report points out, "At a time when quotas and trade protection barriers are of growing significance, it is essential that Hong Kong's certification systems be recognised worldwide as effective, closely supervised, and trustworthy."

Likewise the CPD has involved itself in the procedures of the immigration department. As some observers see it, the

very fact that Hong Kong's population is rising so fast and so continuously adds to the pressures which induce corruption. One aspect of the widespread resentment felt at the continued inflow of refugees and illegal immigrants is the suspicion that in this field, at least, syndicated corruption continues to exist.

The very fact that illegal immigrants are granted identity cards if they make it to the central urban areas stems, in part, from the fear that if this were not so, the illegal immigrants would go underground and become a further pressure for corruption.

Twice as many

Conversely, the number of corruption reports received by ICAC concerning the immigration department doubled last year from 28 to 56, leading ultimately to five prosecutions in 1979 as against one the previous year. But in terms of detailed corruption investigations of Government departments by ICAC, immigration ranks fifth after the Royal Hong Kong Police, public works, urban services, and the new territories administration.

In terms of ICAC prosecutions, the police are still foremost with 44, followed by public works (12), trade and industry (7) and immigration (7). In terms of corruption complaints, the police led in 1979 with 635. Ninety-one were received about the public works, 79 about urban services, 64 about housing, and 59 about new territories.

Thus while enough has already been said to indicate that the struggle against Hong Kong corruption cannot be seen merely in terms of ICAC versus the police, that there is still an important one. While the numbers of complaints against, and investigation of, the police

both increased in total last year, the number of prosecutions has declined—from 126 in 1977 to 62 in 1978 to 41 last year.

It was, of course, the growing scandal of police corruption which primarily led to the formation of ICAC in 1974, and the tensions which erupted in 1977. The operations department of ICAC hopes that large-scale syndicated corruption—which in the public mind was particularly associated with the police—is "now dead and will remain so." ICAC claims that "there has been a steady improvement in its relations with the police." Liaison and consultations between the two are growing and improving. The police undertook 35 of the 284 prosecutions initiated by ICAC last year.

Unlike Singapore, Hong Kong does not enjoy the anti-corruption advantages of being an independent city state, with stable population, self-governed and driven by a political leadership and party which can preach and pressure for greater puritanism. In Hong Kong the pressures continually rise for something much less than walking tall. The rapid expansion of economic links with China also opens up many more theoretical possibilities for illegal corner-cutting, apart from those involving immigration. The very uncertainty over Hong Kong's colonial future could be a massive inducement for corruption as the date of 1997 looms closer. As it "presses home the attack" against corruption, ICAC seeks more allies in the struggle for integrity. Ultimately, these allies must include China and Britain, since London and Peking have the responsibility of eliminating corruption-inducing political uncertainty.

Harvey Stockwyn



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Squatters

CONTINUED FROM PREVIOUS PAGE

In one month alone last year, three fires made 10,000 squatters homeless in the Kowloon area. The first fire alone used up all the temporary Government housing available.

One of the greatest hazards squatters face is fire. The worst one last year was at Ma Jai Hang in Kowloon. It started at four in the morning. There was a big wind blowing and the squatters' shacks went up like matchboxes. Some 300 huts were burnt out and around 6,000 squatters were made homeless. It was amazing that no lives were lost," says Mike Smith, Assistant Director of Housing in charge of squatter control.

Not unnaturally, many squatter areas provide ideal locations for the activities of criminals and gangsters. Even shacks built on big business in Hong Kong, and fights between rival gangs for control of the more lucrative squatter areas has become commonplace in the last couple of years as the pressure on land and housing has increased under the wave of new immigrants from China.

The Triad, but building, is now a multi-million dollar industry. Recently I got through an amendment to the long Kong Crown Ordinance to make it possible for the police to go into squatter areas and erect these racketeers. The problem is, though, in getting people to testify against these criminals, who show little hesitation in using force to stay in business," says Donald Liao.

In fact the police have made some spectacular arrests in the last few months. At one of the more unsavoury squatter areas, at Nam Wok, the police have recently arrested a number of gangsters from the "Big Circle Boys" and a "bad gang" known as the 14K. They had been fighting for control of the shack-building monopoly in the area and in the process three of them had suffered serious stab wounds.

Later Squatter Control, assisted by 30 policemen, moved a shack and knocked down 238 new huts that had been built in the previous week. The outcome was a loss of HK\$238,000 to the gangs, and around a thousand potential squatters were left

looking for somewhere else to squat.

The immediate reaction of the average visitor from Britain when confronted with hillside after hillside of these sordid settlements is to fling Hong Kong's laissez faire battle-cry in its face. But this is not the majority view. In The Housing Authority, not indeed among the squatters.

Officials argue that it has been the very success of Hong Kong that has produced the problem. The colony has received vast numbers of legal and illegal immigrants, mostly from China. They believed, and still believe, that Hong Kong has more to offer either materially or ideologically than the place from which they came.

Inseparable

"Our urban area is so small, our economic strength has been so visible, the influx has been so great. The post-war history of this place is virtually inseparable from that of squatting. First they came to escape the Communists, in 1949, then in 1962, to see the famine in Guangdong, and more recently they have flocked in as restrictions in China have eased under the new regime. These three great influxes have created major housing problems—something we could hardly plan for," says Donald Liao.

"In fact it was the Ship Kip Me disaster in 1953, when overnight a fire made 50,000 squatters homeless, that first forced the Government to start an emergency housing programme. Today we have over 2m people in Government flats, a major proportion of them ex-squatters or children of squatters."

For most of the 280,000 legal and illegal immigrants who entered Hong Kong in 1978 and 1979, squatting provides an initial foothold in the colony. In time, some will move on to the 30-storey public flats they can see from their tiny one-room shacks. Others will find the economics of staying put an attractive proposition. Others still will never make it, and are forced to eke out a meagre livelihood in what can hardly be called ideal conditions.

In Hong Kong, squatting is a whole way of life. The rickety hillside shacks breed hundreds of family businesses. Many find

themselves with telephones, fridges and television sets, while a few become millionaires. The only thing that unites them is that they are living illegally, on land over which they have no rights, and in conditions which to most Westerners would be totally unacceptable.

In one of the old-established squatters' areas, up in the hills above Kowloon, works and lives squatter In-Wai Hui. He's been there 20 years, and has no legal right to remain there. In an old quarry surrounded by trees he has designed and built his own sulphuric acid plant. The plant reeks of acid fumes and one of his 15 workers proudly shows the burns on his leg, saying "Our acid is over 90 per cent pure — it's the best in town." Mr. Hui is a millionaire.

"We are currently building 35,000 public-sector flats a year, and we have a seven-year waiting list, most of whom are not squatters. I am under no illusions about solving this problem. Ten years ago we thought we might have had it licked, but if immigration continues at this rate it will be impossible to see an end to our squatter population," says Donald Liao.

Others disagree. Mrs. Elsie Elliott, MBE, an urban councillor who champions the rights of the Hong Kong Chinese, says: "The key problems are housing starts and the level of immigration. If we can build a Mass Transit Railway in such a short time, I fail to see why we can't double the output of Government housing."

"But right at the heart of it all are the illegal immigrants. Now they no longer come for ideological reasons or to escape war and famine: they come in search of the better life. A direct consequence of this is that the squatters who have been here for 20 years and the locals on the seven year public housing waiting list have to suffer. The Government must give up this so-called 'British fair play' immigration policy which allows those who beat the border patrols to stay. We now have to get tough, and start sending new illegal immigrants back to China, wherever and whenever we find them, and that's the only way we're going to solve our squatter problem."

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Gambling on a golden future in the commodity markets

BY THE END of July, Hong Kong hopes to have in operation a formal market in gold futures making it, say the promoters of the scheme, the principal gold trading centre for Asia.

Hong Kong already is an important gold centre by virtue of having the Chinese Gold and Silver Exchange Society (Kam Ngan) but this deals in physical gold rather than futures, operates on the archaic unit of taels rather than ounces, and trades gold of a fineness lower than that used in international trades.

The opening of the proposed gold futures market, now in an advanced stage of preparation, will bring Hong Kong into direct competition with Singapore, which launched a similar market less than two years ago. Both centres are keenly aware of the competition they will present to each other in the coming few years.

On March 5 this year when the Hong Kong Government formally announced its approval for gold futures trading being added to the other activities of the colony's commodity exchange, the Singapore Government announced tax cuts to help nurture the republic's fledgling gold futures market.

Since then the Singapore Gold Exchange has offered other inducements, such as the introduction of a kilobar contract along with the standard 100 oz contract.

No one doubts that the Hong Kong exchange's decision to add gold to its existing futures activities in sugar, cotton and soy beans is going to deal a blow to the Singapore gold market, which is estimated to draw about half of its business from Hong Kong at present.

But Hong Kong dealers argue that once the two markets are established and working in tandem they will induce flows of new business, to their mutual benefit, from the U.S. and elsewhere as international dealers maximise their opportunities in Asia while other markets elsewhere are closed.

Meanwhile, the Hong Kong Commodity Exchange has had problems much closer to home to worry about. Until very recently, Mr. Woo Hon Fai, the chairman of the Chinese Gold

and Silver Exchange Society (Kam Ngan) was strongly opposed to the commodity exchange being allowed to trade gold futures.

Mr. Woo is a powerful man in the commodity world, being also vice-chairman of the Hong Kong Commodity Exchange's holding company, Seacom. His opposition to the new market could not be taken lightly.

Mr. Peter Scales, chairman of the exchange admitted that without the Chinese speculative element—an essential feature of any active futures market—the new venture could be badly impaired.

'Paper' market

Mr. Woo claimed that there was a kind of gentleman's agreement when the exchange opened that one commodity it would not trade in, was gold, traditionally the preserve of the Kam Ngan.

Other parties denied the existence of such an agreement, however, and many people found it hard to understand Mr. Woo's opposition to a "paper" market when the one he controls is concerned essentially with physical gold.

The Kam Ngan does not deal in futures and though it does give investors the chance to keep their position open through payment of a daily fee, this is not really akin to formal futures trading.

The Kam Ngan supplies a good deal of gold to the local, thriving jewellery trade and it also draws in a lot of speculative business, not only from Hong Kong but also from wealthy overseas Chinese in places as far apart as Thailand, Indonesia, the Philippines and Vietnam.

Everything seemed to favour the Kam Ngan being able to keep this business against competition from the new futures market, which would cater more, it was argued, for the international bullion and commission rather than for local speculators.

Chinese in Hong Kong and elsewhere in the region are accustomed to dealing in taels (one tael is equal to 1.2 fine ounces) rather than ounces, and for centuries, according to Mr. Woo (they have bought gold of 0.99 fineness rather than the

0.005 fineness which the local commodity exchange will deal in and which is favoured by similar futures and physical markets around the world).

One reason for this is the Chinese passion for speicing gold in the form of jewellery and thus their desire to have a slightly harder metal (0.99) which will not be damaged so easily as the finer, but softer, metal traded elsewhere.

In view of all this it was difficult to see why Mr. Woo put up such a long and stiff fight against the futures market, and even threatened at one stage that the members of the Kam Ngan would boycott it.

Some people felt that Mr. Woo was in fact afraid that the much greater scope for trading at the margin, which futures offer, would lure the gambling-prone Chinese away from physical trading, where the scope for speculation is not so great.

Mr. Woo to some extent acknowledges this but puts it differently. He argues that he does not want the small investor in Hong Kong to "burn his fingers" by dabbling in futures trading.

And there is no doubt that, given an opportunity, the local Chinese community from amahs (servants) and tax drivers upwards will happily try any kind of gamble available, be it Hong Kong's heavily-patronised race courses or the local stock exchange. Mr. Woo likes to think that the Kam Ngan understands the local Chinese better than a (largely) expatriate-run commodities exchange would and that even though the Kam Ngan offers the chance to deal in minimum lots of 100 taels (currently costing only around HK\$3,400 (\$10,600) his dealers discourage the small man from speculating.

Whether as a measure to placate Mr. Woo or not, the Hong Kong Government when it formally announced its approval for the new futures venture went out of its way to stress that the new market would "not encourage speculation". Regulations against syndicated trading would continue to apply and lots would have to be of a specified minimum value. This would offer no scope for small investors, and big investors would be dealing on a pro-

perly regulated market rather than with fringe operators.

The question of fringe operators is a delicate one as far as Mr. Woo and the Kam Ngan are concerned. The Hong Kong Government has long been concerned about the activities of companies which employ high-powered salesmen to talk local Chinese into highly speculative trading in gold.

More often than not this leads to serious losses for the investor and sometimes to threats and worse if they are unable to meet their commitments in a falling market.

It has been claimed that these fringe elements deal through the Kam Ngan, although Mr. Woo firmly denies that anyone other than his own members are allowed to deal there.

It is always possible for fringe operators to deal through his members, Mr. Woo admits, but he claims he firmly warns members against dealing with fringe operators and that any who persist in doing so can be suspended from membership.

Mr. Woo claims that fringe operators do not need to go through any formal gold market if they can persuade one group of investors to sell gold and another to buy, and take the margin themselves.

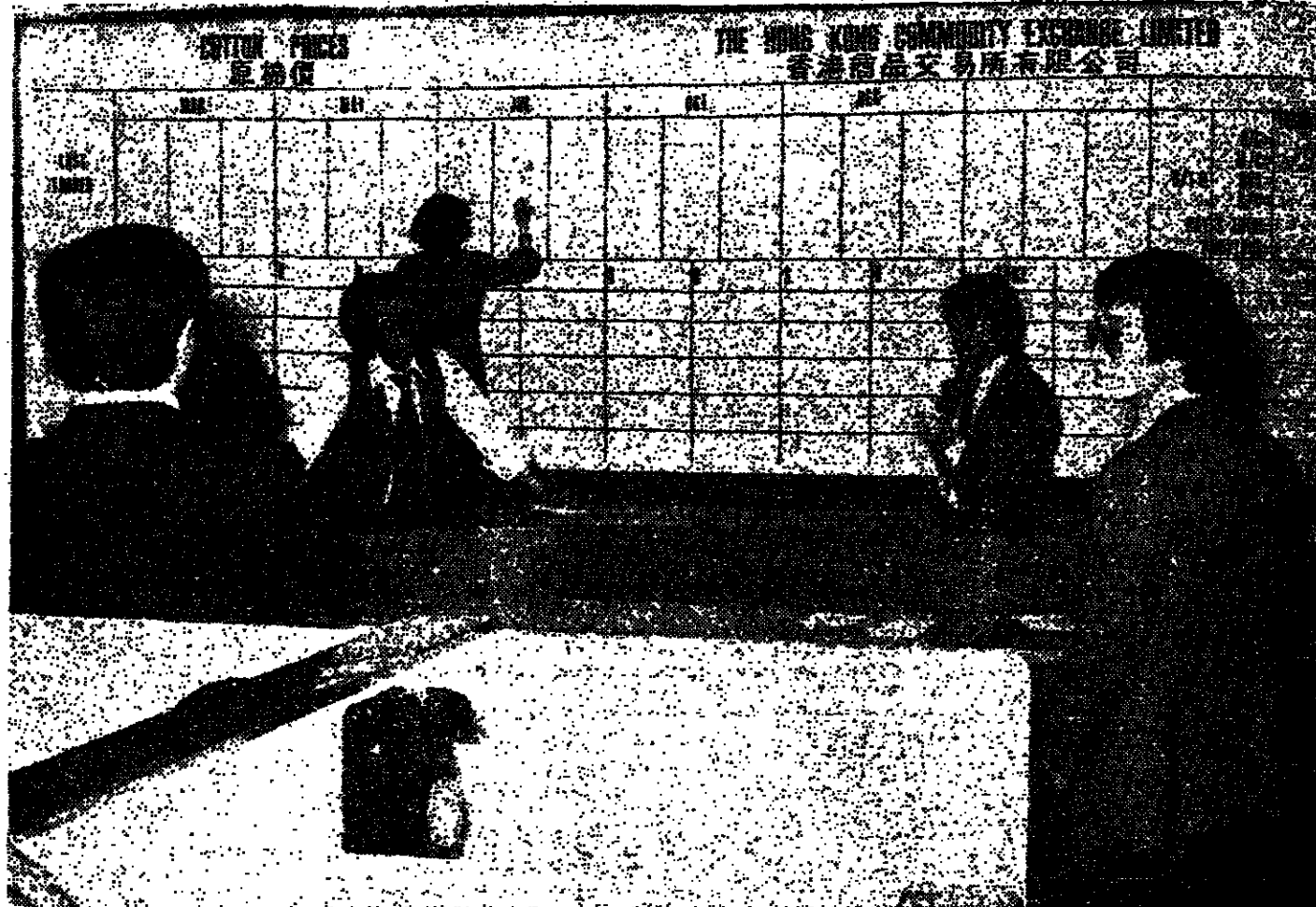
At most they would need only to buy topping-up quantities through the market when supply does not exactly match demand.

Fringe dealers

Meanwhile, the Government, approaching the problem from a somewhat different angle, has stated its intention to bring in legislation curbing the activities of fringe dealers.

Mr. Woo now declares himself to be satisfied that the new futures market will not encourage undue speculation and, therefore, he fully supports the venture. He also admits that he has encouraged some members of the Kam Ngan to apply for membership of the gold dealing section of the exchange.

Mr. Scales for his part welcomes this development and says that with a nice balance of local speculative elements, international bullion dealers and commission houses the new



Futures trading at Hong Kong's commodity exchange has so far centred on cotton (above), sugar and soybeans. A potentially lucrative new market in gold futures is scheduled to open in the near future.

venture has all the right ingredients for an active market.

He is hoping that Japanese commodity dealers, who have ambitions to become an increasingly powerful force on the international commodity dealing scene, will join Hong Kong's new market as active gold traders.

One problem, however, is that the Japanese are used to dealing in groups rather than under the individual "open outcry" system which characterises Western-style commodity exchanges.

Traders used to either way of dealing tend to be suspicious of each other, but Mr. Scales is hoping that measures he has taken to lure the Japanese into Hong Kong's soy bean market, by allowing group trading, will in time lead them to try "open outcry" too and that some form of synthesis will ultimately come about.

Meanwhile, the Hong Kong Commodity Exchange is increasingly on its guard over its own membership. The exchange has a maximum of 250 shares authorised for issue—such

things are governed by the official Commodities Trading Ordinance.

Each member is issued one and more than 80 have gone out already. This is surprising in view of the moribund state of cotton and sugar futures trading on the exchange and still only moderate activity in soybeans.

But the explanation is that, once accepted as a member of the Hong Kong exchange a dealer can become officially registered in the colony and can then begin soliciting business locally to place on other international commodity markets.

Bull phase

"Now that we have the gold rush, I would expect that we would be more selective in processing applications (for membership of the exchange) to give priority to those dealing in our own market and not merely using us as a means to deal elsewhere," says Mr. Scales. "We have had a flood of applications from potential members," he adds.

The Hong Kong exchange announced on June 18 that the contract for gold futures trading would be of 100 troy ounces of 0.995 fineness cast in 100 troy ounce, 50 ounce and one kilo sags. The currency of quotation would be U.S. dollars and delivery in London. The trading method would be open entry and the trading language Chinese (Cantonese dialect). Margins are yet to be decided. This will all take several weeks and the new market could be ready to go in about two months but the launch will almost certainly be delayed until the gold price looks to be in a sustained bull phase.

Recent rises in the gold price has made 100-troy-ounce contracts expensive, however, and the figure may be scaled down. Delivery of the Hong Kong traded gold will almost certainly be in London.

The margin of exchange members trade will also need deciding. In view of the extreme price volatility of gold and the way various exchanges have had to top up their margins in recent months, the margin requirement is likely to be stringent compared to other commodities already traded in Hong Kong.

While the new market in Hong Kong expects to publish a good deal of the business which has gone to Singapore's futures market and some of the 25 per cent or so of U.S. gold futures market deals which originate in Hong Kong, Mr. Scales admits: "Singapore's recent decision to cut taxes on offshore gold dealing to 10 per cent (while Hong Kong retains a 17 per-cent tax rate on profits) could influence the degree of shift between the two centres."

Memories are still strong of how cotton futures trading was launched in an established bear phase—theoretically as good as a bull phase for speculators—and now, nevertheless, it flopped. The gold futures contract in Hong Kong is likely to match broadly those used in New York, Chicago, London and Singapore and will almost certainly be denominated in U.S. dollars (though Hong Kong dollars have been considered) for its 100 troy ounces.

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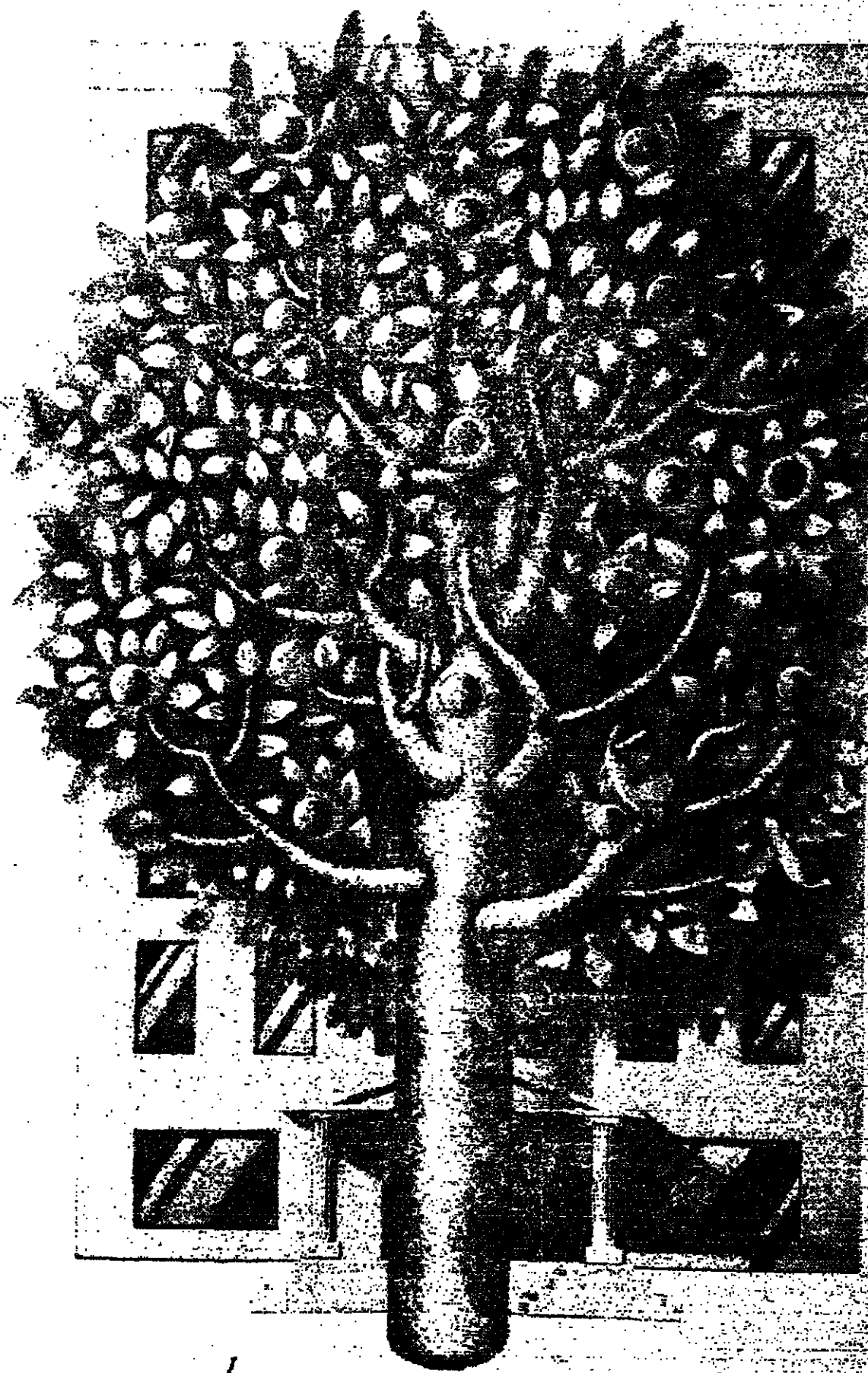
Our Netherlands Antilles office plays a major role in this field. So if you want to grow in Holland or in other markets, contact Mr. Mark I. Eijlberg of our branch in Hong Kong, Rooms 1517-1521, Swire House, Cornmaught Road, telephone 5-225191, telex 65887. Or write for more information to our International Division, 214 Herengracht, 1016 BS Amsterdam, The Netherlands. After all, wouldn't you prefer a bank that tries to make your company well known - rather than itself?

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Companies and Markets

UK COMPANY NEWS

F. H. Lloyd still suffers from depressed trading

TRADING conditions at F. H. Lloyd Holdings continue to be depressed both at home and abroad, Mr. R. H. Foster, the chairman, tells shareholders in his annual report.

The group's costs are being particularly affected by the recent swing in increases in energy prices while sales prospects are being reduced in export markets.

The general industrial outlook makes it extremely difficult to predict the outcome of the current year's trading but the introduction of the mini-mill towards the end of 1980 is expected to begin to contribute to group profit, the chairman says.

For the year ended March 29, 1980, external sales rose from £53.5m to £64.1m but pre-tax profits were £2.37m against £3.42m after higher interest and severance payments.

The chairman says that research indicates that throughout mainland Europe and the UK, there exists a surplus foundry capacity some 30 per cent in excess of foreseen demand.

While three of the group's four foundries achieved satisfactory results, the heavy foundry at Wednesbury continues to suffer from the serious lack of demand from the energy, earth-moving and ordnance market sectors.

The service companies traded satisfactorily and while similar results in the current year are expected, the effects of curtailment of West Midlands industrial activity have to be recognised, the chairman says. Order books in engineering are generally satisfactory, he adds.

The mini mill project is proceeding well and its start up is expected for September as

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interim or final and the sub-divisions shown below are based mainly on last year's timetable.

| TODAY | |
|--|---------|
| Finis—Associated Leisure, Colmore Investments, Heywood Williams, May and Hassell, R. W. Toothill | |
| FUTURE DATES | |
| Interim—Gardiner | July 15 |
| Meggit Holdings | July 21 |
| St. Andrew Trust | July 24 |
| Shapco and Fisher | Aug. 28 |
| FINALS | |
| Avenue Close | July 8 |
| Cook (William) (Sheffield) | July 31 |
| Danjan Holdings | July 10 |
| Diamond Stylus | July 14 |
| Orng Shipping | July 16 |
| James Stroud | July 15 |
| Mitchell Somers | July 10 |
| Monk (A.) | July 24 |
| Nehang Corp., Capital Mgmt. | July 18 |
| Trustees Corp. | July 17 |
| Warner Holidays | July 14 |
| Wesman (R. Kalvin) | July 8 |

originally planned. The Board's confidence in the project's potential benefit has been strengthened by trends that have developed since last year.

Meeting, Great Eastern Hotel, EC, July 30 at noon.

RECEIVER FOR D. MACDONALD

A receiver has been appointed to Donald Macdonald (Antares), tanner, manufacturer and retailer of sheepskin coats and jackets, of Dumbartonshire.

The receiver, Mr. Frank Mycroft, a Glasgow chartered

Greenfields up slightly at midway

PRE-TAX PROFITS of Greenfields Leisure, the retail and wholesale leisurewear and camping group, for the six months to April 30, 1980 are up slightly from £432,000 to £444,000 on turnover of £8.95m, against £7.29m.

The directors say that the marginal profit improvement reflects the general decline in the retail industry in recent months and it is not possible to anticipate an up-turn in trade.

In the face of an evidently deepening recession, the board is pessimistic regarding the current year's results. However they are maintaining the interim dividend at 0.84p — last year's total was 2.15p from record pre-tax profits of £1.06m.

First-half tax-charge is £231,000 (£228,000) giving earnings per share of 1.57p against 1.54p.

High interest rates continue to affect profitability calling for strict control of costs and the maximisation of cash flow. In these conditions the board is pleased the group is maintaining its full market share and all divisions are well placed to benefit from any economic upturn.

Sutcliffe Speakman losses rise

CONTINUING PROBLEMS associated with brick-making plant supplied to the Middle East have brought increased losses for Sutcliffe Speakman and Co. engineer, in the year ended March 31, 1980.

The pre-tax deficit deepened from £407,000 to £503,000, including costs relating to the Middle Eastern contracts of £322,000 (£200,000). But the board states that the group is nearing the end of these problems.

Also included in the loss are sharply increased interest charges of £271,000 (£103,000). After tax credits of £568,000 (£218,000) and an extraordinary credit this time of £79,000, there is an attributable surplus of £246,000 against a loss of £190,000. Earnings are shown as 6.6p (nil).

The dividend is again passed — last year a single payment of 1.316p was made at the interim stage.

The chemical plant side performed satisfactorily during the year, say the directors, and the carbon division had another excellent year, although it was appreciably affected by the adverse dollar exchange rate.

Group turnover was £157,000 ahead at £7.59m.

WESTERN DOORS TEA HOLDINGS—Dividend for 1979, 4p (5.24p) for 1979. Pre-tax loss for 1979 £43,554 (£7,966). Attributable loss £153,782 (£81,288) after tax etc. Loss per share 12.90p (6.87p).

ASSAM DOORS HOLDINGS—Pre-tax profit for 1979 £53,923 (£15,632). Attributable loss £38,549 (£447,158) after tax, etc. Loss per share 8.76p (12.58p). Dividend 5.0p (9.5067p).

INVEST. TRUST OF GUERNSEY—Net asset value per 50p share at June 30, 1980, 23p (20p at December 31, 1979).

R. Moss falls in second half

A SECOND half drop from £255,910 to £138,617 has left the taxable surplus of Robert Moss down from £508,418 to £267,001 for the year ended March 31, 1980.

Turnover of this plastic injection mouldings manufacturer was ahead at £3.37m, compared with £2.73m.

At halfway the directors said they were not in a position to assess whether or not the interim profit rise would be continued in the second half, because of effects of the engineering strike and the possibility of further industrial unrest in the coming months.

They now say that the current austere trading conditions are persisting into 1980/81 with little indication of any improvement, but they remain confident in the future of the company.

And with the return of stable trading conditions the directors would expect profits to increase substantially.

After the year's tax charge of £130,731—against £34,902, net profits came through at £223,360 (£223,516), giving earnings of 3.26p (4.23p) per 10p share.

The dividend, effectively lifted to 1.596p (1.5298p) net with a 0.886p final, absorbs £158,600 (£152,981). The amount retained was £166,760 compared with £70,558.

Cluff joins in Seventh Round

Cluff Oil, the independent exploration company, has formed two subsidiaries to join in new consortia for the seventh round of North Sea licence applications and has sold all their unlisted shares to institutional and private investors.

The Moray Firth Exploration Company has issued 4,350,000 ordinary shares of £1 each, payable as to 10p per share with the balance subject to call. The Channel Exploration Company has issued 2,700,000 ordinary

shares of £1 each with 10p paid so far and the balance also subject to call.

Mr. Algy Cluff, chairman of Cluff Oil, said yesterday that the £687,600 raised after expenses would be used to meet costs and expenses of seismic data and the licence application.

Moray Firth Exploration will have a 40 per cent stake in the Moray Firth consortium. Cluff Oil interests will total 30 per cent of this consortium directly and indirectly and the remaining 10 per cent is to be held by Matheson and Company.

A legal tussle is developing between the board of Milford Docks and three shareholders who are seeking to be elected to the board.

The three men, Mr. Falk Ewen, Mr. John Knowles, and Mr. James Thomson-Moore, notified the board of their intentions on June 27.

On July 2 the board wrote to shareholders postponing the annual meeting due to be held tomorrow while it quizzed the men about their backgrounds and reasons for wanting to join the board.

Mr. Charles Smith, the chairman of Milford, admitted that a "legal quibble" existed which had still to be resolved. Under normal company law, annual meetings could not be postponed by decree of the board, but Milford Docks was incorporated under a special Act of Parliament in 1875 and this might have a bearing on the case.

In the circumstances he advised shareholders to turn up at the Hyde Park Hotel at noon tomorrow where they would "be welcome whether a meeting was held or not."

CU investment bond

The Commercial Union Assurance Company, one of the largest composite insurance groups in the UK, is extending its unit-linked life operations with the launch today of the Hand in Hand investment bond.

This is a single premium life

bond, with investment in four funds: property, fixed interest and cash under the management of the CU and equities, a fund of National Westminster unit trusts managed jointly by CU and NatWest. Investors can switch between funds.

CU is, however, not offering a managed fund unlike all other unit-linked life operations by other groups.

It already offers an equity-linked single premium self-employed pensions plan — the Variable Annuity Plan — which it inherited when Northern Assurance was acquired.

CU also offers a regular savings scheme linked to NatWest Units — the Sunflower scheme. This latest move expands considerably the scope of its linked life operations.

The contract will be marketed through NatWest branches and through specialist brokers in this field. The minimum investment is £1,000 and the charges are normal for this type of contract.

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1212

| Company | Last Change | Gross | Yield | P/E |
|-----------------------|-------------|-------|-------|------|
| Arrol-Johnston | 28 | 3 | 11.2 | 3.51 |
| Armitage and Rhodes | 28 | 3 | 13.1 | 1.81 |
| Bardon Hill | 275cd | 9 | 13.8 | 5.0 |
| County Cirs 10.7% Pl. | 75 | 3 | 15.3 | 20.4 |
| Deborah Ord. | 92 | 5.0 | 5.4 | 10.7 |
| Frank Horsell | 117 | 7.9 | 6.7 | 7.3 |
| Frederick Parker | 88 | 2 | 12.8 | 14.5 |
| George Blair | 86 | 2 | 18.7 | 16.5 |
| Jackson Group | 82 | 2 | 9.0 | 7.3 |
| James Burroughs | 114 | 2 | 7.9 | 8.9 |
| Robert Jenkins | 302 | 1 | 31.3 | 10.4 |
| Tordax | 221 | 1 | 15.1 | 8.8 |
| Twinkl Ord. | 147 | 0 | — | — |
| Twinkl 12% ULS | 75 | — | 12.0 | 16.0 |
| Unilock Holdings | 47 | 2.6 | 5.3 | 10.0 |
| Unilock Holdings New | 46 | — | — | — |
| Walter Alexander | 92 | 1 | 4.4 | 4.7 |
| W. S. Yates | 218 | 1 | 12.1 | 5.5 |

† Accounts prepared under provisions of SSAP 15.

This advertisement complies with the requirements of the Council of The Stock Exchange.

July 7, 1980



Österreichische Kontrollbank Aktiengesellschaft

(Incorporated with limited liability in the Republic of Austria)

U.S.\$ 150,000,000

10% Guaranteed Notes Due 1985

U.S.\$ 50,000,000 of which are being issued as the Initial Tranche

Guaranteed as to Payment of Principal and Interest by the

Republic of Austria

Issue Price for the Initial Tranche 984% adjusted for interest from July 15, 1980

The following have agreed to subscribe or procure subscribers for the Initial Tranche:

Orion Bank Limited
European Banking Company Limited
S. G. Warburg & Co. Ltd.
Creditaanstalt-Bankverein
Österreichische Länderbank Aktiengesellschaft

The Notes constituting the above Issue have been admitted to the Official List by the Council of The Stock Exchange subject only to the issue of the Notes.

Interest is payable annually on July 15, the first payment being made on July 15, 1981

Full particulars of the Issuer, the Guarantor and the Notes are available in the Extel Statistical Service and may be obtained during usual business hours up to and including July 18, 1980 from:-

Orion Bank Limited, 1 London Wall, London EC2Y 5JX and Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN

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BETT
BETT BROTHERS LIMITED
Building and Civil Engineering Contractors
INTERIM STATEMENT
HALF YEAR ENDED 29th FEBRUARY 1980

| | 1980 | 1979 |
|----------------------------------|-----------|-----------|
| Group Turnover | 9,932,712 | 9,406,911 |
| Unaudited Profit before Taxation | 1,019,780 | 868,149 |
| Corporation Tax at 52% | 530,286 | 451,437 |
| Group Profit after Tax | 489,494 | 416,712 |
| Interim Dividend declared | 180,000 | 150,000 |
| Less Waived | 28,923 | 24,025 |
| Cost of Dividend | 151,077 | 125,975 |

The Directors have declared an Interim Dividend of 1.2000p per share (1979—1.0000p) on account of the year ending 31st August 1980 payable on 18th August 1980 to members on the Register as at 24th July 1980.

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F.H. LLOYD HOLDINGS LIMITED

Summary of results for the
52 weeks ended 29th March 1980

| | 1980 | 1979 |
|-------------------------|--------|---------|
| £'000 | £'000 | £'000 |
| External Sales | 64,096 | 63,510 |
| Profit before taxation | 2,374 | 3,416 |
| Net profit for the year | 1,691 | 2,801 |
| Ordinary Dividends | 4.0p | 6.1229p |

Points from the Statement by the Chairman, Mr. R. H. Foster:

Results
The profit for the year was affected by national and domestic strikes. The effect of these strikes was felt mainly in the first half and this, added to the usual impact of annual holidays in that period, contributed to the substantial improvement in the second half profits.

New 'Mini Mill' Project
This is proceeding well and we

anticipate start-up in September as originally planned. Our confidence in the potential benefit to be gained is strengthened by trends which have developed since my last report.

Future Prospects
Trading conditions generally continue to be depressed both at home and abroad. Apart from the influence of present rates of inflation on the level of wage expectations our own costs are also particularly affected by the recent swing in increases in energy prices, while the strength of sterling reduces our sales prospects in export markets. The general industrial outlook makes it extremely difficult to predict the outcome of the current year's trading. However, the introduction of the 'Mini Mill' towards the end of the calendar year is expected to begin to contribute to group profit.

The Annual General Meeting will be held at 22 noon on 30th July 1980 at The Great Eastern Hotel, Liverpool Street, London EC2.

FHL F.H. LLOYD HOLDINGS LTD., JAMES BRIDGE STEEL WORKS, WEDNESBURY, WEST MIDLANDS WS10 9SD.

BY FRANCIS GHILES

CURRENT INTERNATIONAL BOND ISSUES

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. © Minimum. § Convertible.
†† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund.
Note: Yields are calculated on AIBD basis.

BY PETER MONTAGNON

U.S. BONDS

BY DAVID LASCELLES

in a huge issue that was postponed last week because of the weakness of the market. Caterpillar Tractor plans to sell \$300m of 30-year bonds, and Marathon Oil \$150m of notes due in 1987. In a new Bell issue, New York Telephone is slated for \$450m of debentures due in 2019.

These securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

JULY 1980

£50,000,000

Guaranteed Sterling/U.S. Dollar Payable
Floating Rate Notes due 1990

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(Incorporated with limited liability in The Netherlands)

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| | |
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| Deutsche Bank Aktiengesellschaft | Manufacturers Hanover Limited |
| Morgan Grenfell & Co. Limited | Swiss Bank Corporation (Overseas) Limited |
| Union Bank of Switzerland (Securities) Limited | S. G. Warburg & Co. Ltd. |
| | Westdeutsche Landesbank Girozentrale |

| | | | |
|---|--|--|--|
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| Banca Commerciale Italiana | Banca del Gottardo | Banco di Roma | Bank of America International Limited |
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| Banque Générale du Luxembourg S.A. | Banque Internationale à Luxembourg S.A. | | Banque Louis-Dreyfus |
| Banque de Paris et des Pays-Bas | Banque de l'Union Européenne | Banque Worms | Barclays International Group |
| Barings Brothers & Co., Limited | Bayrische Hypotheken- und Wechsel-Bank Aktiengesellschaft | | Bayrische Landesbank Girozentrale |
| Bayrische Vereinsbank | Berliner Handels- und Frankfurter Bank | James Capel & Co. | Cazenove & Co. |
| Chemical Bank International Group | Citicorp International Group | Continental Illinois Limited | Copenhagen Handelsbank |
| Crédit Industriel et Commercial | Creditanstalt-Bankverein | Credito Italiano | Dai-ichi Kangyo Bank Nederland N.V. |
| Daiwa Europe N.V. | Den Danske Bank af 1871 Aktieselskab | DG BANK Deutsche Genossenschaftsbank | Dillon, Read Overseas Corporation |
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| Marine Midland Limited | Merrill Lynch International & Co. | Mitsubishi Bank (Europe) S.A. | Samuel Montagu & Co. Limited |
| Morgan Guaranty Ltd | Morgan Stanley International | The Nikko Securities Co., (Europe) Ltd. | Nippon European Bank S.A. |
| Nomura Europe N.V. | Nordfinanz Bank Zuerich | Nordic Bank Limited | Orion Bank Limited |
| Postipankki | N. M. Rothschild & Sons Limited | Rothschild Bank AG | Rowe & Pimau |
| Salomon Brothers International | Sarwa Bank (Underwriters) Limited | Scandinavian Bank Limited | Schröder, Minchmeyer, Hengst & Co. |
| J. Henry Schroder Wagg & Co. Limited | Singer & Friedlander Limited | Skandinaviska Enskilda Banken | Smith Barney, Harris Upham & Co. Incorporated |
| Société Générale de Banque S.A. | Strauss, Turnbull & Co. | Sumitomo Finance International | Svenska Handelsbanken |
| Union de Banques Arabes et Françaises-U.B.A.F. | Verkehrs- und Wesfbank Aktiengesellschaft | Wardley Limited | Wood Gundy Limited |
| | | | Yamachi International (Europe) Limited |

This advertisement includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Energy Capital Limited ("the Company"). It does not constitute an invitation to any person to subscribe for or purchase any securities in the Company. The Directors have taken all reasonable steps to ensure that the facts stated herein are true and accurate in all material respects and there are no other material facts the omission of which would make misleading any statement herein whether of fact or opinion. All the Directors accept responsibility accordingly.

Application has been made to the Council of The Stock Exchange for the Ordinary Shares of the Company now in issue and to be issued to be admitted to the Official List. All references in this document to "p" are to United States dollars and, unless otherwise stated, a rate of exchange of £1 : \$2.3 has been used throughout.

ENERGY CAPITAL LIMITED

(formerly Hamillborne Limited)
SHARE CAPITAL

(Registered in England No. 214008)

| Authorised | Issued and now proposed to be issued fully paid |
|------------|---|
| £1,000,000 | in Ordinary Shares of 12½p each £874,725 |

BORROWINGS

At the close of business on 26th June, 1980 the Company and its subsidiaries had outstanding borrowings aggregating £8,537 all of which was secured. Save as aforesaid and apart from the inter-company facilities, neither the Company nor any of its subsidiaries had outstanding on that date any loan capital in issue or created but unissued, any borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments, or guarantees or other material contingent liabilities.

Placing by Halliday, Simpson & Co. of 1,050,000 Ordinary Shares of 12½p each of the Company at a price of 37½p per Ordinary Share

director of New Court Private Equity Fund. Mr. Allan is a director of UNC Resources Inc., a leading independent nuclear company in the US, Energy Sources Inc., an independent petroleum exploration and production company, as well as several other energy and investment companies.

Mr. G. Ferguson Lacey (31 years old) and Mr. R. C. McBride (76 years old) are non-executive directors. They together control BMCT which is a private investment company with interests in a wide range of activities including the energy and allied sectors.

Mr. J. E. M. Mayne (35 years old), who is also the Company Secretary, first became a Director of Hamillborne in 1974 and is responsible for the UK aspects of the business including administration and accounting functions for the group parent company.

2. Staff and Offices

ECRI has established an office in Rosslyn, Virginia and this acts as the headquarters for the group's US operations. Mr. Temple is supported at this office by a small accounting and secretarial staff.

The Company also maintains a small office in England which provides financial advice to the group and deals with the accounting and administration of the parent company.

3. Mineral Consultant

The Company has entered into arrangements with Harris Energy Corporation ("Harris") of Denver, Colorado for the provision of technical services.

The executive directors of Harris include Dr. R. W. Harris who is Professor Emeritus of Geology at the University of Oklahoma and Mr. D. E. Mettler who holds a degree of geology from the University of Kansas and who has been involved in oil and gas exploration in the US for a number of years. Under these arrangements the services of Dr. Harris, Mr. Mettler or other technical personnel either employed or retained by Harris will be made available to the Company for the provision of technical advice on specific projects as requested by the Company, at fees to be agreed on a project-by-project basis.

The Company and Mr. Temple each own approximately 10 per cent. of the issued share capital of Harris of which Mr. Temple is Chairman and Mr. G. Ferguson Lacey a director.

FUTURE PROSPECTS

The interests which have been acquired form a base from which the Company can develop within the energy sector. The Bison Basin project is about to enter commercial production and the oil and gas leases represent a reasonable spread of interests in a number of different locations and at different stages of development.

It is the intention of the Directors that the Company's participation in the Bison Basin project should not be a short term one. It is intended that ECRI should obtain the benefit of the cash flow as the project comes into full production, and also benefit from any increase in reserves over and above the figure of 5m pounds on which its acquisition has been based.

The oil and gas production assets will continue to be exploited so that full utilisation is made of the estimated reserves. There is no present intention to dispose of the interest in any of the wells which are currently in production, although any offer received in the future would be considered on its merits.

The exploration acreage provides potential for growth in several developing oil and gas plays in various sedimentary basins. The Company intends, however, to limit its own drilling expenditure and, where appropriate, development will be achieved by farm-out arrangements under which a third party will earn a share in the acreage by undertaking the cost of drilling.

In addition to the interests which have been acquired, the Company expects to be in a position to participate in other energy opportunities. The extensive experience of Mr. Temple in the oil and gas industry and of Mr. Allan in the uranium sector provides shareholders with a board competent to identify opportunities similar to those which have been acquired. Such opportunities are expected to relate to new exploration areas requiring little initial capital investment. The Company's method of operation will be to take participations in existing syndicates for the exploitation of a particular resource or to be instrumental in the organisation of new syndicates in which it will participate.

FINANCIAL INFORMATION

The Company does not expect to generate substantial surplus income and cash flow will be employed in the development of the energy interests. Accordingly only minimum dividends will be paid in years when revenue surpluses justify such a payment. The objective of the Directors will be to achieve asset growth and this they anticipate will come about by an increase in value of the reserves acquired, by the proving up of additional reserves in the Bison Basin and on the exploration acreage, and by the ability to participate in other energy investment opportunities as they arise. As an example, since the negotiations with Mr. Temple commenced, a gas discovery has been made by Supcon Exploration in the Kiowa Northwest (Atoka) Field with an estimated flow rate of 1.7m. cubic feet of gas per day.

BALANCE SHEETS

The audited net assets of the Company at 31st December, 1979 are summarised below together with a pro forma statement of net assets on completion of the acquisition of the uranium and oil and gas interests and disposal of Hamillborne Limited based on the net assets at 31st December, 1979.

| | The Company at 31st December, 1979 | The Company at 31st December, 1979 adjusted for subsequent transactions |
|---|---------------------------------------|--|
| INVESTMENT IN ENERGY PROPERTIES | £700 | £700 |
| OTHER INVESTMENTS | — | 1,714 |
| Listed | 224 | — |
| Unlisted | 71 | 152 |
| | 295 | 1,866 |
| LONG TERM RECEIVABLE | — | 40 |
| CURRENT ASSETS | | |
| Investment in Subsidiary less provision | 130 | — |
| Debtors | 5 | 5 |
| Bank balances | 285 | 71 |
| | 400 | 76 |
| CURRENT LIABILITIES | | |
| Creditors | 23 | 17 |
| Taxation | 27 | 27 |
| Proposed dividend | 14 | 14 |
| | 64 | 58 |
| NET CURRENT ASSETS | 336 | 18 |
| | 631 | 1,924 |
| Represented by: | | |
| SHARE CAPITAL | 392 | 875 |
| SHARE PREMIUM ACCOUNT | 184 | 891 |
| RESERVES | 75 | 58 |
| | 631 | 1,924 |
| NET ASSETS PER ORDINARY SHARE | 20.1p | 27.5p |

Accounting Policies

- The principal accounting policies adopted in the preparation of the accounts at 31st December, 1979 are set out below:—
 - Accounting convention**
The accounts are prepared on the historical cost convention.
 - Accounting treatment of subsidiary**
The net assets of the subsidiary, Hamillborne Limited, have been included at the amount to be received from the disposal including the dividend receivable.
 - Investments**
Investments are stated at cost or at market value if that is lower and the diminution in value is considered to be permanent.
 - Deferred taxation**
Deferred taxation is provided on the liability method at the year-end rate of tax on all significant timing differences only in so far as the Directors consider that the taxation deferred will be payable in the foreseeable future.
- The principal accounting policies used in preparing the pro forma balance sheet are those used by the group in preparing its accounts at 31st December, 1979 and the following additional policies have been adopted:—
 - Investments in energy producing properties will be amortised on an individual property basis using the unit of production method. The unit of production method involves the amortising of the cost of the investment by reference to the amount extracted in any year compared to the total estimated reserves of each property.
 - Investments in non-producing properties will be initially capitalised. Subsequently these costs will be:—
 - Amortised as producing properties when they become productive; or
 - Charged as an expense when it is determined the property will not be productive.
 - Profits or losses on disposal of individual properties will be included in the profit before taxation of each year.

Transactions reflected in the Pro Forma Balance Sheet

In preparing the pro forma balance sheet, no account has been taken of any movement in net assets since the date of the last audited accounts of the Company except for adjustments to reflect the following:—

- Disposal of the entire issued share capital of Hamillborne Limited and receipt of £75,000 forming part of the sale consideration and receipt of a dividend of £25,000 after deducting repayment of the balance on current account of £10,000. The remaining balance of £90,000 has been shown as a long term receivable falling due in equal instalments on the first and second anniversary of completion.
- Acquisition of uranium interests for the issue of 2,500,000 new Ordinary Shares of 12½p each at an assumed value of 37½p per share.
- Acquisition of oil and gas interests for a cash payment of \$420,000 (£183,000 converted at the rate of \$2.3 to £) and the issue of 1,350,000 new Ordinary Shares of 12½p each at an assumed value of 37½p per share.
- Issue for cash of 12,500 new Ordinary Shares of 12½p at an assumed value of 37½p per share.
- The disposal of the entire portfolio of listed investments. The unlisted investments of £152,000 consist of a holding of 2,800,000 shares of Harris Energy Corporation (£64,000) and a holding of 800,000 shares of U.S. Syncrene Inc. (£88,000).
- Expenses of the transactions estimated at £226,000. Of this amount, £107,000 has been capitalised as part of the investment in energy properties and £119,000 has been charged against Share Premium Account.

Contingent liability

A future disposal by ECRI of all or part of its interest in the Bison Basin uranium project is likely to give rise to a liability to United States taxation. Any liability to United States taxation would be calculated on the basis of the excess of the sale proceeds over the inherited tax base which is less than the proposed acquisition cost. The maximum extra liability which could arise by virtue of this tax base being lower than actual cost is estimated at approximately £220,000.

PRO FORMA CASH FLOW PROJECTION

Set out below is an indication of possible cash flows for the three years ending 31st December, 1982 after taking into account the transactions reflected in the pro forma balance sheet above. These have been prepared for illustrative purposes and do not in any way represent forecasts of profits. The projection should be read in conjunction with the principal assumptions on which it is based and which are set out below. Owing to the nature of the oil and gas and uranium industries, divergences from the assumptions listed below are likely to have a material effect on the projection. In particular the projection does not reflect the result of possible further acquisitions or disposals of existing interests.

Directors
GERALD JOHN WARD (Chairman)
Juddingham Place, London SW1E 6HX
*PAUL NATHANIEL TEMPLE
(Chief Executive)
1900 North Kent Street, Suite 900,
Plaza East Building, Rosslyn,
Virginia 22209, USA
*FREDERICK ALEY ALLAN
488 Madison Avenue,
New York, New York 10022, USA
GRAHAM FERGUSON LACEY
Juddingham Place, London SW1E 6HX
ROBERT GECIL MCBRIDE
Juddingham Place, London SW1E 6HX
IES EDWARD MOSLEY MAYNE, M.A.
18, North Street, Melton Mowbray,
Leicestershire LE13 1NL
*U.S. Citizen
Secretary and Registered Office
IES EDWARD MOSLEY MAYNE, M.A.
18, North Street, Melton Mowbray,
Leicestershire LE13 1NL
Registrars and Transfer Office
LLOYDS BANK LIMITED
Registrars' Department,
Causeway, Goring-by-Sea, Worthing,
West Sussex BN12 8DA

INTRODUCTION

On 9th June, 1980 the Company entered into agreements as follows:—

- to purchase from Allan Capital Corporation ("ACC") that company's entire interest in the Bison Basin uranium project in Wyoming, USA for \$2m, to be satisfied by the issue to ACC of 2,500,000 new Ordinary Shares of 12½p each of the Company, credited as fully paid (the issued capital of ACC is owned by Energy Capital Limited, which company will upon completion change its name to Overseas Capital Limited and which is hereafter referred to as Overseas Capital Limited) the shares of which are owned as to 61 per cent. by Paul N. Temple ("Mr. Temple") and as to 39 per cent. by F. Aley Allan ("Mr. Allan");
- to purchase from Mr. Temple certain oil and gas production and exploration interests in the United States for \$1.5m to be satisfied by the issue to Mr. Temple of 1,350,000 new Ordinary Shares of 12½p each of the Company, credited as fully paid; and the payment to him of \$420,000 in cash;
- to issue to Overseas Capital Limited, ACC's parent company, 12,500 new Ordinary Shares of 12½p each of the Company for a cash subscription of \$10,000; and
- to sell the entire issued share capital of Hamillborne Brick Eastery Limited ("Hamillborne Brick") to Islandquarry Quarry Limited, a company controlled by Mr. G. Ferguson Lacey and Mr. R. C. McBride, for a consideration of £115,000 in cash, payable as to £75,000 upon completion and two payments of £20,000 each to be paid on the first and second anniversary of completion.

In addition, agreements were entered into for the placing by Halliday, Simpson & Co. of 1,050,000 of the new Ordinary Shares of the Company issued to Mr. Temple at a placement price of 37½p (plus brokers' commission of ¼p), and the transfer by Mr. Temple to Birmingham and Midland Counties Trust, Limited ("BMCT") of 300,000 Ordinary Shares of the Company (being the balance of the new Ordinary Shares issued to him in respect of the oil and gas interests after the placing at a price of 37½p per Ordinary Share. The new Ordinary Shares issued in respect of these transactions rank *pari passu* in all respects with the existing Ordinary Shares that are not entitled to receive the final dividend payable in respect of the year ended 31st December, 1979.

These agreements (other than that relating to the placing of 1,050,000 Ordinary Shares) were conditional, *inter alia*, upon the approval of shareholders and that approval was given at an Extraordinary General Meeting of the Company held on 3rd July, 1980. At that Meeting a special resolution was passed authorising the placing of the new Ordinary Shares of the Company from Hamillborne Limited to Energy Capital Limited.

In view of the nature of the transactions, the Company requested that The Stock Exchange suspend the listing for its Ordinary Shares and this suspension took effect from 9.30 a.m. on 11th March, 1980. The agreements are now conditional, *inter alia*, upon the admission to the Official List by the Council of The Stock Exchange of the Ordinary Shares of the Company both issued and to be issued pursuant to certain of the agreements. Subject to listing, dealings are expected to commence on 14th July, 1980.

This document has been prepared on the basis that the agreements referred to above have been completed in all respects and the change of name of the company to Energy Capital Limited effected.

FACTORY AND BUSINESS HISTORY

History

The Company was incorporated on 12th June, 1976 as The Hamillborne Brick Company, Limited to own and operate a brickworks in Kent. Its name was changed to Energy Capital Limited on 11th December, 1974. Hamillborne Brick, the wholly-owned subsidiary which owned the brickworks, has now been sold.

In April 1978, as a result of a general offer to shareholders, BMCT acquired a controlling shareholding in the Company and Mr. Ferguson Lacey and Mr. Temple, who together control BMCT, joined the board of directors. During the last 18 months a number of possible acquisition opportunities for the Company have been considered, culminating in the arrangements with Mr. Temple and Mr. Allan for the purchase of energy interests in the United States. The Directors of the company are of the view that participation in the energy sector represents a sound investment and that the Company has acquired not only a portfolio of attractive energy-related assets but also the basis and expertise for expansion within this sector in the future. The combination of increased market prices for oil and gas and the fact that the world has resulted in many of the smaller fields becoming economically viable. This is particularly true in the United States where it enables a company of this size to participate in the development of these fields. It is in this area that the Company will be closely involved.

The Company has established two subsidiary companies in the State of Delaware in the USA, Energy Capital Inc. ("ECI"), which holds the Company's interest in the Bison Basin uranium project, and Energy Capital Resources Inc. ("ECRI") which owns the Company's oil and gas interests. In addition the Company uses to form a wholly-owned subsidiary in the Netherlands which will own the entire issued share capital of ECRI.

Business

The energy interests which have been acquired by the Company represent the greater part of the business which Mr. Temple has established over the last five years. A description of these interests is set out below.

Uranium Interest

ECI has acquired all right, title and interest owned by ACC in the Bison Basin uranium project. Bison Basin is a site of uranium bearing land in the State of Wyoming extending to approximately 11,000 acres. The rights to extract the uranium from the site were acquired approximately three and a half years ago by a consortium headed by Ogle Petroleum Inc., ("Ogle") who are geological and petroleum consultants based in Santa Barbara, California. The exploration and testing of the site were undertaken by Ogle who took the view soon after confirming the presence of ore reserves on the property that an *in-situ* solution mining process, using ammonium bicarbonate, would be the best method of extraction.

By mid-1978 Ogle had established that the Bison Basin site contained reserves of at least one million pounds of uranium, and at that time a one-half interest in a portion of the site containing these reserves was sold to Western Fuel, Inc., a subsidiary of Duke Power Company. Duke Power is a substantial investor-owned electric utility company operating coal and nuclear power plants in the south eastern part of the United States. Western Fuel was also granted the right to earn a half interest in the balance of the Bison Basin acreage by carrying out, in several phases, a \$1.2 million drilling programme. Western Fuel has earned a 33 per cent. interest in the remaining acreage and is expected to earn its full 50 per cent. interest by conducting additional drilling during the course of this year.

Amex Corporation, an independent mining contractor based in Colorado, which has carried out the drilling programme on behalf of Western Fuel, has noted that the Bison Basin Initial Production Area and West Alkali Creek Exploration Area contains proven reserves of approximately 2.2m pounds and the probable and inferred reserves bring total reserves to 3.2m pounds of calculated in-place uranium. In the feasibility studies which they have adopted in connection with the Bison Basin project both Ogle and Western Fuel have used an estimate of 5m pounds of recoverable reserves based on an extraction rate of 85 per cent. and a recovery rate of 95 per cent. Amex Corporation has expressed the opinion to the Company that forthcoming exploration drilling will delineate this figure of 5m pounds of recoverable reserves and that the total acreage has the potential for a substantially greater figure.

The Bison Basin uranium sandstone ore body is particularly suitable for solution mining because of favourable mineralogy, permeability and hydrologic conditions. While it is impossible to forecast precisely the rate of extraction, it has been the experience of the operators that in ore bodies in similar geological positions yielding over 90 per cent. of estimated reserves has been extracted. This level is possible because the leaching solution runs into ore grades of a quality insufficient to allow it to account in the calculation of reserves, thus increasing the actual percentage extraction rate. A pilot production operation was commenced in May 1979 completed in July 1979. The results of the pilot operation were that of the 2,025 pounds which were extracted, 1,980 pounds of uranium were recovered and the use of 45 pounds was collected in the waste evaporation pond, representing a recovery rate of 97.78 per cent. Ogle, which acts as operator for the project, believes the pilot operation demonstrated that the ore body can be successfully mined by the *in-situ* solution method.

Under the terms of the agreement between Ogle and Western Fuel, Western Fuel is obliged to spend up to \$3.2m for the capital costs and expenses to establish necessary plant and commence commercial production. Ogle's present estimates are that the participants in the consortium will not be called upon for additional contributions to the cost of the commercial production facilities. Construction of the plant is proceeding and initial commercial production is planned to commence in the first half of this year. The plant when completed will be capable of processing the 5m pounds of uranium and in a full year production is expected to average 375,000 pounds; this level should be achieved by the end of the first quarter of 1982. The market price during the first months of this year has varied between \$32 and \$43 per pound and, although no long term sales contracts have been entered into, no difficulty is anticipated in selling the total annual production at the market price from time to time.

ECI's interests in the Bison Basin project comprise both a working and royalty interest. The working interest is at present a 3.837 per cent. interest but this will be reduced to 2.878 per cent. once ECRI has received income from its working and royalty interests in the project equal to the funds invested by ACC in developing the project (to date approximately \$242,000) and acquiring the royalty interest (\$105,000). ECRI's royalty interest constitutes a 7.674 per cent. interest in a 15 per cent. royalty royalty on production revenues from the Bison Basin and this will also reduce—to a 5.756 per cent. interest—at the same time that the working interest is sold. Further descriptions of the interests are given in Appendix I.

There is also set out in Appendix I a copy of a report received from Amex Corporation regarding the estimated reserves of the Bison Basin acreage and a copy of a report received from Mountain States Mineral Enterprises Inc., valuing the interests which ECRI has acquired in the project at \$2.5m. Mountain States considered the project applying a number of different assumptions and those upon which their valuation is based were recommended by them as being fair and reasonable. In summary the valuation is based on the total cash flow anticipated over the 16 year life of the project assuming total reserves of 5m pounds of uranium, escalation of price and operating costs of 10 per cent. per annum and a discount factor of 10 per cent. per annum.

In addition to the above interests, Ogle has acquired the mineral rights in approximately 3,000 acres adjoining the above area for \$25,000. As a result of its agreement with ACC, ECRI has agreed to take a 3.837 per cent. interest in such additional acreage as a cost of approximately \$1,000.

Oil and Gas Interests

The oil and gas production assets which ECRI has acquired comprise interests in 25 producing properties situated in Ohio, Oklahoma and Texas. These are summarised as follows:—

| | Location | Description |
|-------------------------------|-----------------------------|---|
| operator | Washington County, Ohio | Interests in 4 leases in 3 fields, oil and gas production |
| operator Oil and Gas Drilling | Pittsburgh County, Oklahoma | Interests in 7 leases in 6 fields, gas production |
| operator Exploration | Archer County, Texas | Interests in 8 leases in 6 fields, oil and gas production |
| operator Exploration Co. | Callahan County, Texas | |
| | Nolan County, Texas | |
| | Taylor County, Texas | |
| operator Oil Co. | Dewitt County, Texas | Interest in 1 lease in 1 field, oil and gas production |
| operator Oil Production Inc. | Zapata County, Texas | Interest in 5 leases in 3 fields, oil and gas production |

The total estimated reserves of the oil and gas producing leases attributed to the interests owned by ECRI amount to approximately 31,000 barrels of oil and 1m. cubic feet of gas. These interests represent oil and gas wells in varying stages of maturity as some wells are building up, or have reached, full production whilst others are approaching depletion. Further details of the properties are set out in Appendix II.

The table included in the report by Price Waterhouse & Co. set out in Appendix III summarises the receipts and payments in each of the five years ended 31st December, 1979, in respect of the oil and gas interests. For the year ended 31st December, 1979 proceeds from sales of oil and gas amounted to approximately £97,600 after payment of expenses directly related to these interests and after payments to maintain the non-producing interests referred in the next paragraph, net proceeds amounted to approximately £72,450.

The exploration assets consist of interests in 53 non-producing properties, including exploration for carbon dioxide in New Mexico and for oil and gas in Oklahoma, Texas, Montana, Utah and Wyoming. The interests in these leases do not carry any commitment for exploration expenditure and the total annual rental payable to maintain the interests is approximately \$20,000 per annum.

There is set out in Appendix II a copy of a report received from Cavley, Gillespie & Associates Inc., regarding the estimated reserves and their valuation of the oil and gas interests. Since completion of the arrangements with Mr. Temple, three of the non-producing interests, comprising 1,987 acres in Sargent County and 80 acres in Sublette County in Wyoming, have been disposed of, realising a total of \$81,899 as compared with the valuation of \$70,300 included in the report of Cavley, Gillespie & Associates Inc.

MANAGEMENT

Directors

Mr. G. J. Ward (42 years old) has been a director of the Company since March 1979 and was appointed Chairman following completion of the acquisition of the energy interests.

Mr. Temple (57 years old) has, as chief executive of the Company, overall responsibility for the management and exploitation of the existing portfolio of assets and for the identification of new investment opportunities within the energy sector in the United States. Mr. Temple obtained a degree in law from Harvard University in 1948 and is a member of the Bars of California and the District of Columbia. Mr. Temple's career in the oil industry began with Standard Oil of New Jersey (now Exxon Corporation) and subsequently as President of Esso Affiliates in Spain. From 1965 to 1969 he was Executive Vice-President of Gas Natural S.A. in Spain and from 1970 to 1973 he was President (and co-founder) of Weeks Petroleum Limited. Since 1976 Mr. Temple has identified and developed the energy interests acquired by the Company.

Mr. Allan (58 years old) has particular responsibility for the development of the interest in the Bison Basin project. Mr. Allan obtained a degree in law from Yale University, is a member of the Bars of the State of New York and the District of Columbia, and has served as Law Secretary to judges of the US Circuit Court of Appeals and the Supreme Court. He has held positions as General Counsel to the Office of the US Special Representative to N.A.T.O., to the Atomic Industrial Forum, and to Mobil Oil (Europe). Prior to joining Mr. Temple to establish ACC, he was senior Vice-President of New Court Securities Corporation, and was a founder and

ENERGY CAPITAL LIMITED Continued

Principal Assumptions

- (1) For the purpose of completing the figures it has been assumed that the oil and gas and uranium interests were acquired on 1st January, 1980.
- (2) It is assumed that the activity of the group will be to hold the investments in the oil and gas interests and to bring the Bison Basin uranium interest into operation. No attempt has been made to forecast the income and expenses of further investment in new or existing projects. With the exception of \$15,000 drilling costs to be incurred in respect of one well, there are no commitments to invest in new or existing properties.
- (3) Oil and gas income and expenses are the same as those projected in an appraisal prepared by Cawley, Gillespie & Associates Inc.
- (4) Uranium income and expenses are based on those provided by the project operator, Ogle Petroleum Inc. The following levels of production of uranium from the project have been assumed:—

| | 1980 | 1981 | 1982 |
|----------------|------|------|------|
| 33,400 pounds | | | |
| 187,500 pounds | | | |
| 375,000 pounds | | | |
- (5) Following the enactment of the Crude Oil Windfall Profit Tax Act of 1980 in the United States it is estimated that the tax applicable to the current production levels would amount to approximately £5,000. The projection does not include the effect of this tax as all required information is not presently available.
- (6) An exchange rate of U.S. dollars 2.3 to £1 has been used over the three years being the approximate rate on 4th June, 1980.
- (7) There will be no future government legislation either in the United States or United Kingdom adversely affecting the group's operations.
- (8) There will be no material change in the current rates or bases of direct or indirect taxation.

Cash flows for the years to 31st December

| | 1980 | 1981 | 1982 |
|--|------|------|------|
| Operating Receipts | | | |
| Oil and gas wells | 118 | 138 | 131 |
| Uranium project | 24 | 130 | 264 |
| Interest and dividends | 7 | — | — |
| Sale of three non-producing oil and gas leases | 35 | — | — |
| | 184 | 268 | 395 |
| Operating Payments | | | |
| Operations of oil and gas wells | 16 | 17 | 17 |
| Operations of uranium project | 19 | 69 | 105 |
| Administration expenses | 58 | 69 | 75 |
| Rental payments on oil and gas leases | 7 | 7 | 7 |
| | 100 | 162 | 204 |
| Net Operating Cash Inflow | 84 | 106 | 191 |
| Capital Receipts | | | |
| Deferred proceeds of sale of Hamill Brick | — | 20 | 20 |
| Capital Payments | | | |
| Further investment in oil and uranium properties | 58 | 58 | — |
| Taxation | 25 | — | — |
| Dividend | 14 | — | — |
| | 97 | 58 | — |
| Net Capital Inflow (Outflow) | (98) | (38) | 20 |
| Total Net Cash Inflow (Outflow) | (14) | 71 | 211 |
| Balance at bank per pro forma balance sheet | 71 | 57 | 128 |
| Balance carried forward | 57 | 128 | 339 |
| Amortisation of the existing investments in energy properties which will be charged in the profit and loss account would be:— | | | |
| Oil and gas wells | 110 | 94 | 79 |
| Uranium project | 7 | 41 | 82 |
| | 117 | 135 | 161 |

APPENDIX I

URANIUM INTEREST

Description of Interest

(a) Working Interest

The working interest of ACC in the Bison Basin project initially comprised a one-sixth participating interest granted to it by Ogle pursuant to a letter of agreement dated 1st February, 1977 and an agency agreement dated 28th March, 1977. These agreements provided, *inter alia*, that:

- Ogle would operate the project and receive income derived from ACC's interest therein on behalf of ACC.
- ACC would contribute one-sixth of the costs and expenses of the project.
- ACC's interest would be reduced to one-eighth after it had recouped its share of costs and expenses.

In June 1978 Ogle entered into a joint venture agreement with Western Fuel Inc. under which Western Fuel made certain payments and undertook certain exploration and development obligations in exchange for a one-half interest in that area of the Bison Basin which is now being developed and a right to acquire up to one-half interest in the remaining area covered by certain mining claims held by Ogle. As a result of this transaction and other transactions entered into by ACC, ACC's working interest comprised 7.67 per cent. of Ogle's interest in the joint venture agreement reducing to 5.76 per cent. at the time that the income received by ACC from its working interest and royalty interest in the project equalled the monies expended by ACC in developing the project and acquiring the royalty interest. At present these amounts are approximately \$242,000 and \$109,000 respectively. Ogle's interest in the area is reduced to 50 per cent. as a result of its agreement with Western Fuel and therefore ACC's interest in the area is increased to 3.83 per cent. or, reducing to 2.87 per cent. as above.

The interests of Ogle and Western Fuel (and hence of ACC) in the Bison Basin are subject to certain obligations assumed by Ogle when it acquired the mining rights to the area from Teton Exploration Drilling Company, Inc. ("Teton") pursuant to an agreement between Ogle and Teton dated 1st February, 1977. In particular, the agreement reserved a 40 per cent. royalty in favour of Teton and imposed certain minimum working requirements on Ogle, failure to comply with which might lead to forfeiture of the mining rights. The working interest in the area is also subject to its pro rata share of an advance royalty of US\$25,000 per annum payable to the two previous owners of the mining rights and a production royalty of 35 cents per pound of uranium extracted. Part of the advance royalty can be credited against the production royalty.

(b) Royalty Interest

The royalty interest is derived from part of the 40 per cent. Teton royalty referred to above. By three assignments made in June 1978, March 1979 and September 1979 respectively, Teton has transferred three-quarters of its royalty interests to Western Fuel and Ogle, with the result that Ogle now holds a 13 per cent. royalty interest. ACC contributed part of the royalty purchase price paid by Ogle and Ogle holds on behalf of ACC a 7.67 per cent. royalty interest. ACC's interest will reduce to 5.76 per cent. at the same time as the working interest is reduced. In the event of the mining rights being forfeited, the royalty interest is payable.

Estimate of Reserves

There is set out below the text of a letter dated 3rd June, 1980 received by the directors of the Company from Arnes Corporation, consulting geologists.

16 Inverness Place East,
Building B, Englewood, Colorado 80112,
U.S.A.

3rd June, 1980.

The Directors,

Hamill Limited

Gentlemen,

In compliance with your request we have estimated the proven and probable reserves in the area known as the Ogle-Western Bison Basin Initial Production Area and West Alkali Creek Exploration Area in the State of Wyoming, U.S.A. The Arnes Corporation has been retained since 1977 by Western Fuel Inc., who lead the consortium to explore the reserves in the project area and to carry out an exploratory drilling programme to assess the proven and probable reserves of the area. Our assessment of the reserves, proven and probable, is based on the results of this continuing drilling programme.

Professional Qualifications

Arnes is a firm of independent consultants with an office at 16 Inverness Place East, Building B, Englewood, Colorado 80112. The firm employs geologists engaged in the appraisal of uranium properties and other mineral prospects. The firm has had a number of years' experience in the assessment of uranium projects.

Estimate of Reserves

In place uranium reserves for the project based on detailed drilling are shown in the table below. This table is designed to correct for the positive disequilibrium factor of 1.278 which has been substantiated in both the Bison Basin Initial Production Area and subsequent reserves which we have delineated by exploration drilling during the past two years in the West Alkali Creek Exploration Area. These reserves total 3,219,338 pounds made up as to proven reserves of 2,187,530 pounds, probable reserves of 694,121 pounds and inferred reserves of 337,687 pounds.

Disequilibrium is a discrepancy in regard to inferred precision and grade of uranium from radiometric assay (alpha/gamma) and three direct measurements by chemical sampling of the same ore interval (alpha/gamma). Sampling and analysis were carried out to provide definitive information regarding disequilibrium within a typical uranium ore from deposit in the project area and was based on continuous side-wall samples. Sampling was conducted in 15 rotary drill holes which were on a profile line and drilled on 50 foot centres. A comparison of analytical results of the core samples show that alpha/gamma was consistently higher or lower than analytical alpha/gamma results by the factors shown below:—

| | Sample | Factor |
|--|--------|--------|
| Grade 0.02% or greater (Reserve Cutoff rate) | 25 | 1.278 |
| Grade 0.01% or greater to less than 0.02% | 41 | 0.773 |
| Grade less than 0.01% | 62 | 0.559 |

These disequilibrium factors were averaged on the basis of both thickness and grade per cent. of the samples and this resulted in a disequilibrium factor of 1.278.

Since the sandstone paleochannels systems which constitute the host rock are smaller throughout the Initial Production Area and West Alkali Creek Exploration Area it is reasonable to assume that the above disequilibrium factors are valid through they may not necessarily represent disequilibrium throughout the project area. However, the results are considered indicative and correlate with other reliable available disequilibrium data in the Initial Production Area only.

The majority of the estimated reserves are located within depths of 200 to 400 feet and two miles of production plant facilities. In the areas of deeper ore reserves (400 to 800 feet) geochemical results appear "stacked" which will allow development of potential reserves from multiple horizons within the same well bore.

In addition to the 3,219,338 pounds of uranium reserves indicated in the table, exploration drilling during Phases 1 and 2 of the past two years have delineated approximately 21 miles, or 163,680 feet, of geochemical roll fronts in the various horizons. To date, developmental drilling in our exploration program (Phases 1 and 2) has yielded approximately 200,000 pounds of in place alpha/gamma per mile or 37,878 pounds per 1,000 feet, of geochemical roll. Accordingly, we believe the potential of the West Alkali Creek Exploration Area to be as much as 10 million pounds of total in place uranium which includes the 3.2 million pounds shown in the table.

Based on drilling results to date, we are confident that additional drilling will delineate the 5 million pound recoverable reserve figure which has been used for production feasibility studies.

Yours faithfully,

for Arnes Corporation,

Arnold D. Cunningham

Bison Basin Initial Production Area and West Alkali Creek Exploration Area

IN PLACE URANIUM RESERVES

November—1979

| November - 1978 | | | | | | | | | | | | | | | |
|--|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------------|-----------|
| Depth Range (Feet) | Reserve Cutoff | Proven | | | | Probable | | | | Inferred | | | | Total (Lbs.) | |
| | | DEF=1.000 | DEF=1.278 | DEF=1.000 | DEF=1.278 | DEF=1.000 | DEF=1.278 | DEF=1.000 | DEF=1.278 | DEF=1.000 | DEF=1.278 | DEF=1.000 | DEF=1.278 | | |
| BISON BASIN INITIAL PRODUCTION AREA | 200'-400' | Grade GT | 0.03% | 1,187,347 | 1,517,429 | 236,880 | 302,451 | — | — | 1,424,007 | 1,819,881 | — | — | 1,424,007 | 1,819,881 |
| | 400'-600' | Grade GT | 0.02% | 1,234,770 | 1,578,035 | 284,903 | 364,108 | — | — | 1,519,678 | 1,942,142 | — | — | 1,519,678 | 1,942,142 |
| WEST ALKALI CREEK EXPLORATION AREA | 200'-400' | Grade GT | 0.03% | 414,581 | 529,835 | 238,032 | 305,483 | 86,101 | 71,697 | 708,714 | 907,014 | — | — | 708,714 | 907,014 |
| | 400'-600' | Grade GT | 0.02% | 437,464 | 559,079 | 268,228 | 340,015 | 77,113 | 88,550 | 772,805 | 987,645 | — | — | 772,805 | 987,645 |
| TOTALS | 200'-400' | Grade GT | 0.03% | 37,375 | 47,765 | — | — | 171,182 | 218,763 | 208,587 | 268,548 | — | — | 208,587 | 268,548 |
| | 400'-600' | Grade GT | 0.02% | 38,448 | 50,415 | — | — | 187,718 | 238,137 | 228,555 | 288,551 | — | — | 228,555 | 288,551 |
| INITIAL PRODUCTION AREA AND WEST ALKALI CREEK EXPLORATION AREA | 200'-400' | Grade GT | 0.03% | 451,859 | 577,600 | 238,032 | 305,483 | 227,263 | 280,480 | 918,281 | 1,173,583 | — | — | 918,281 | 1,173,583 |
| | 400'-600' | Grade GT | 0.02% | 476,912 | 608,494 | 268,228 | 340,015 | 264,231 | 337,687 | 989,371 | 1,277,195 | — | — | 989,371 | 1,277,195 |
| GRAND TOTALS | 200'-400' | Grade GT | 0.03% | 1,639,303 | 2,055,029 | 475,862 | 607,934 | 227,263 | 280,480 | 2,342,285 | 2,903,444 | — | — | 2,342,285 | 2,903,444 |
| | 400'-600' | Grade GT | 0.02% | 1,717,582 | 2,187,530 | 543,121 | 694,121 | 384,231 | 337,687 | 2,519,044 | 3,219,338 | — | — | 2,519,044 | 3,219,338 |

Estimate of Value

There is set out below the text of a letter dated 3rd June, 1980 received by the directors of the Company from Mountain States Mineral Enterprises Inc.

Mountain States Mineral Enterprises Inc.,
P.O. Box 17960, Interstate 10 & Val Road,
Tucson, Arizona,
U.S.A.

3rd June, 1980.

The Directors,

Hamill Limited

Gentlemen,

In compliance with your request we have estimated the present value of the interests in the Bison Basin uranium project attributable to Allen Capital Corporation.

Professional Qualifications

Mountain States Mineral Enterprises Inc. ("MSME") which is a Delaware corporation with its headquarters based in Tucson, Arizona, is engaged in the business of evaluating, designing and constructing mineral processing facilities. MSME employs over 400 people and has had over 10 years' experience as a company in the evaluation and design of mineral processing facilities. Several key personnel have over 20 years of uranium experience up to 40 years of experience in mineral processing. In the 1979 listing of the top 500 U.S. design engineering and construction firms, MSME ranked 47th.

The Project

MSME was retained by the consortium exploiting the Bison Basin site in 1979 to study the feasibility of extracting and recovering uranium from the site. MSME prepared two studies for the consortium in August 1979 titled as follows:—

1. Preliminary Engineering Study, Bison Basin Mine Project in Six Uranium Facilities.
2. Feasibility Study, Bison Basin Mine Project, in Six Uranium Facilities.

Our estimate of the present value (as at 1st January, 1980) of Allen Capital Corporation's interest in the project is based on the above studies and on the operator's anticipated production programme and the effect of the consortium's purchase of a further royalty interest in the project. The project is based on an estimate of the value of the project based on the following assumptions:—

- The initial production rate will be 100 gallons per minute (GPM) increasing to 1,200 GPM by April 1982. Thereafter production will be at the rate of 1,200 GPM throughout the remaining life of the project.
- Production will commence during the summer of 1980.
- The initial production rate will be 100 gallons per minute (GPM) increasing to 1,200 GPM by April 1982. Thereafter production will be at the rate of 1,200 GPM throughout the remaining life of the project.
- Capital costs will be in line with estimates prepared from preliminary engineering study where each item of equipment was identified, sized and priced.
- Selling price of uranium will be initially \$40 per pound increasing at the rate of 10 per cent. per annum.
- Revenue cost would increase at the rate of 10 per cent. per annum.
- Future cash flows have been discounted to present day values at 10 per cent. per annum.
- That the site will provide recoverable reserves of at least 5 million pounds U₃O₈ (uranium oxide) based on an extraction of 85 per cent. and a recovery of 95 per cent.

On the basis of the above assumptions we consider the estimate of \$2,300,000 of Allen Capital Corporation's current interest to be reasonable and conservative.

Yours faithfully,

for Mountain States Mineral Enterprises Inc.,

Dr. Nathan B. Blumpe,

Vice President, MSME,

APPENDIX II

OIL AND GAS INTERESTS

There is set out below the text of a letter dated 3rd June, 1980, received by the directors of the Company from Cawley, Gillespie & Associates, Inc., Petroleum Consultants.

302 Fort Worth Club Building,
Fort Worth,
Texas 76102,
U.S.A.

3rd June, 1980.

The Directors,

Hamill Limited

Gentlemen,

In compliance with your request we have estimated as at 1st January, 1980 the oil and gas reserves and value attributable to the interests owned by Mr. Paul N. Temple in the oil and gas producing properties summarised in Table 1 below. In addition we have estimated the value of certain non-producing leasehold and mineral interests belonging to Mr. Temple summarised in Table 2 below.

Professional Qualifications

Cawley, Gillespie & Associates, Inc. is a Texas corporation with offices at 302 Fort Worth Club Building, Fort Worth, Texas 76102. The firm consists of petroleum engineers and geologists together with field staff. Its principals have many years experience in the petroleum industry and are engaged in field studies, lease evaluations, reserve estimates and other consultancy services related to the petroleum sector.

Appraisal

The estimates represent our best judgment based on the information available to us at the time of preparation. It should be noted that reserve estimates are subject to continuing changes as additional information becomes available. The reserves actually recovered, the sweepings therefrom, and the actual cost related thereto could be more or less than the estimated amounts.

| Net Reserves of Producing Properties | Oil (Barrels) | Gas (Million of Cubic Feet) |
|---|---------------|-----------------------------|
| Estimated value of oil and gas reserves in producing leases | 31,227 | 2,258 |
| Estimated value of non-producing acreage | 9,100 | 1,205 |
| Total value of interest attributable to Mr. Paul N. Temple | 40,327 | 3,463 |

Assumptions made in appraising value of leases

- Assessment of the producing properties has been on production for a number of months, therefore estimates presented were based on extrapolation of past performance and/or volumetric estimates.
- Oil from the producing properties is classified as "heavy", "stripper", or "superheavy". Current "heavy" and "stripper" oil prices were estimated eight per cent. per year to a maximum of \$45 per barrel. Light oil was estimated 4.7 per cent. per month for twenty-two months and thereafter was estimated eight per cent. per year to a maximum of \$45 per barrel. The subject properties are operated by the producers and it was assumed that production from the evaluated properties would be exempt from the proposed excise tax.
- Future gas revenue was based on current prices and on the National Gas Policy Act of 1978, assuming an annual inflation adjustment factor of eight per cent. per year to a maximum of \$10 per MCF.
- Future operating costs were based on current costs estimated eight per cent. per year for five years (period of oil price escalation).
- The values estimated for the non-producing properties were based upon our experience and consultations with third parties knowledgeable in average values in the particular areas.
- There were no estimates based on interpretations of seismic data furnished by Mr. Temple and the various operators. To some extent data from public records have been used to check and corroborate data furnished.

Yours faithfully,

for Cawley, Gillespie & Associates, Inc.,

A. W. Angerman.

Table 1. Producing Properties

| Table 2. Producing Properties | | | Reserve Interest Being Appraised Percentage | Estimated Reserves Oil Barrels | Estimated Reserves Gas MCF | Estimated Value of Oil \$ | Estimated Value of Gas \$ |
|-------------------------------|---------------------------------------|--------------------------------------|---|--------------------------------|----------------------------|---------------------------|---------------------------|
| Operator | Location | Description of Property | | | | | |
| Landman Oil and Gas Drilling | Washington County, Ohio | Fishing Field | 75.0 | 39 | 12,007 | 37 | 2,258 |
| | | Eddy-Wilking 1 | | | | | |
| | | Vine Field | | | | | |
| | | Joan Nordhaus 1 | 12.5 | 1,763 | 3,259 | 389 | 449 |
| | | Warren Township Field | 72.5 | 48 | 6,554 | 9 | 389 |
| Supcon Exploration | Pittsburgh County, Oklahoma | Eddy 1 | | | | | |
| | | Warren Township Field | | | | | |
| | | Cadlock 2 | 10.2 | 748 | 1,694 | 12 | 187 |
| | | Ashtabul (Commonwealth) Field | 8.7 | — | 26,832 | — | 3,257 |
| | | Cadley NW 1/4 124 | | | | | |
| | | Ashtabul (Commonwealth) Field | 7.0 | — | 44,727 | — | 5,409 |
| | | Cadley NW 1/4 111 | | | | | |
| | | Ashtabul 5 (Ashtabul) Field | 7.0 | — | 22,363 | — | 2,704 |
| | | Cadley NW 1/4 111 | | | | | |
| | | Klone Northwest (Ashtabul) Field | 5.9 | — | 10,789 | — | 1,307 |
| Messery Exploration Co. | Ackerly County, Texas | Hill SW 1/4 1 | | | | | |
| | | Klone Northwest (Commonwealth) Field | 8.8 | — | 18,578 | — | 2,075 |
| | | Consent 1 | | | | | |
| | | Klone Northwest (Wagon) Field | 8.9 | — | 33,533 | — | 5,434 |
| | | Klone Northwest (Wagon) Field | 5.9 | — | 5,789 | — | 678 |
| | | Anchor Canyon Regular Field | 5.1 | 229 | — | 119 | — |
| | | Pedacook 1-S | | | | | |
| | | Navigation (Hill) Field | 5.1 | 4,742 | — | 509 | — |
| | | Pedacook 1 | | | | | |
| | | Navigation (Hill) Field | 14.7 | 8,135 | — | 1,204 | — |
| Callahan County, Texas | Nolan County, Texas | Pedacook 2 | 10.2 | 5,537 | — | 559 | — |
| | | Bar, Leon | | | | | |
| | | Blair (Gardner) Field | | | | | |
| | | Jackie Gilman (Gardner Sand) Field | 10.2 | 5,537 | 11,787 | 1,092 | 1,377 |
| | | Andley, Frank 1-A | | | | | |
| Taylor County, Texas | Dawson County, Texas | Jackie Gilman (Gardner Sand) Field | 4.8 | 1,615 | — | 385 | — |
| | | Andley, Frank 2 | | | | | |
| | | Jackie Gilman (Gardner Sand) Field | 4.8 | 252 | 15,752 | 32 | 1,638 |
| | | Andley, Frank 1 | | | | | |
| | | Spanish Oaks (Cook) Field | 10.2 | 2,652 | — | 295 | — |
| Miami Oil Production, Inc. | Zapata County, Texas | Truck, Davis 1 | | | | | |
| | | West Holly (McPherson 7450) Field | 9.5 | 12 | 9,335 | 5 | 2,788 |
| | | Kalodonskiyok 1 | | | | | |
| | | Alamogordo (Chasen Field) Field | 3.2 | 311 | 66,426 | 54 | 5,313 |
| | | Widow 2232 | | | | | |
| Zapata County, Texas | Alamogordo (Widow, Hiramah 1st) Field | Costas 2273 | 2.5 | 339 | 70,187 | 35 | 12,424 |
| | | Lopez, Alamo 2288 | 2.4 | — | 8,747 | — | 1,991 |
| | | Schneider, Charles 2274 | 2.1 | — | 223,239 | — | 22,829 |
| | | Lopez, Alamo 2288 | 1.8 | — | 7,729 | — | — |
| | | Schneider, Charles 2274 | | | | | |

RECENT ISSUES
EQUITIES

| Company | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 | 1946 | 1945 | 1944 | 1943 | 1942 | 1941 | 1940 | 1939 | 1938 | 1937 | 1936 | 1935 | 1934 | 1933 | 1932 | 1931 | 1930 | 1929 | 1928 | 1927 | 1926 | 1925 | 1924 | 1923 | 1922 | 1921 | 1920 | 1919 | 1918 | 1917 | 1916 | 1915 | 1914 | 1913 | 1912 | 1911 | 1910 | 1909 | 1908 | 1907 | 1906 | 1905 | 1904 | 1903 | 1902 | 1901 | 1900 | 1899 | 1898 | 1897 | 1896 | 1895 | 1894 | 1893 | 1892 | 1891 | 1890 | 1889 | 1888 | 1887 | 1886 | 1885 | 1884 | 1883 | 1882 | 1881 | 1880 | 1879 | 1878 | 1877 | 1876 | 1875 | 1874 | 1873 | 1872 | 1871 | 1870 | 1869 | 1868 | 1867 | 1866 | 1865 | 1864 | 1863 | 1862 | 1861 | 1860 | 1859 | 1858 | 1857 | 1856 | 1855 | 1854 | 1853 | 1852 | 1851 | 1850 | 1849 | 1848 | 1847 | 1846 | 1845 | 1844 | 1843 | 1842 | 1841 | 1840 | 1839 | 1838 | 1837 | 1836 | 1835 | 1834 | 1833 | 1832 | 1831 | 1830 | 1829 | 1828 | 1827 | 1826 | 1825 | 1824 | 1823 | 1822 | 1821 | 1820 | 1819 | 1818 | 1817 | 1816 | 1815 | 1814 | 1813 | 1812 | 1811 | 1810 | 1809 | 1808 | 1807 | 1806 | 1805 | 1804 | 1803 | 1802 | 1801 | 1800 | 1799 | 1798 | 1797 | 1796 | 1795 | 1794 | 1793 | 1792 | 1791 | 1790 | 1789 | 1788 | 1787 | 1786 | 1785 | 1784 | 1783 | 1782 | 1781 | 1780 | 1779 | 1778 | 1777 | 1776 | 1775 | 1774 | 1773 | 1772 | 1771 | 1770 | 1769 | 1768 | 1767 | 1766 | 1765 | 1764 | 1763 | 1762 | 1761 | 1760 | 1759 | 1758 | 1757 | 1756 | 1755 | 1754 | 1753 | 1752 | 1751 | 1750 | 1749 | 1748 | 1747 | 1746 | 1745 | 1744 | 1743 | 1742 | 1741 | 1740 | 1739 | 1738 | 1737 | 1736 | 1735 | 1734 | 1733 | 1732 | 1731 | 1730 | 1729 | 1728 | 1727 | 1726 | 1725 | 1724 | 1723 | 1722 | 1721 | 1720 | 1719 | 1718 | 1717 | 1716 | 1715 | 1714 | 1713 | 1712 | 1711 | 1710 | 1709 | 1708 | 1707 | 1706 | 1705 | 1704 | 1703 | 1702 | 1701 | 1700 | 1699 | 1698 | 1697 | 1696 | 1695 | 1694 | 1693 | 1692 | 1691 | 1690 | 1689 | 1688 | 1687 | 1686 | 1685 | 1684 | 1683 | 1682 | 1681 | 1680 | 1679 | 1678 | 1677 | 1676 | 1675 | 1674 | 1673 | 1672 | 1671 | 1670 | 1669 | 1668 | 1667 | 1666 | 1665 | 1664 | 1663 | 1662 | 1661 | 1660 | 1659 | 1658 | 1657 | 1656 | 1655 | 1654 | 1653 | 1652 | 1651 | 1650 | 1649 | 1648 | 1647 | 1646 | 1645 | 1644 | 1643 | 1642 | 1641 | 1640 | 1639 | 1638 | 1637 | 1636 | 1635 | 1634 | 1633 | 1632 | 1631 | 1630 | 1629 | 1628 | 1627 | 1626 | 1625 | 1624 | 1623 | 1622 | 1621 | 1620 | 1619 | 1618 | 1617 | 1616 | 1615 | 1614 | 1613 | 1612 | 1611 | 1610 | 1609 | 1608 | 1607 | 1606 | 1605 | 1604 | 1603 | 1602 | 1601 | 1600 | 1599 | 1598 | 1597 | 1596 | 1595 | 1594 | 1593 | 1592 | 1591 | 1590 | 1589 | 1588 | 1587 | 1586 | 1585 | 1584 | 1583 | 1582 | 1581 | 1580 | 1579 | 1578 | 1577 | 1576 | 1575 | 1574 | 1573 | 1572 | 1571 | 1570 | 1569 | 1568 | 1567 | 1566 | 1565 | 1564 | 1563 | 1562 | 1561 | 1560 | 1559 | 1558 | 1557 | 1556 | 1555 | 1554 | 1553 | 1552 | 1551 | 1550 | 1549 | 1548 | 1547 | 1546 | 1545 | 1544 | 1543 | 1542 | 1541 | 1540 | 1539 | 1538 | 1537 | 1536 | 1535 | 1534 | 1533 | 1532 | 1531 | 1530 | 1529 | 1528 | 1527 | 1526 | 1525 | 1524 | 1523 | 1522 | 1521 | 1520 | 1519 | 1518 | 1517 | 1516 | 1515 | 1514 | 1513 | 1512 | 1511 | 1510 | 1509 | 1508 | 1507 | 1506 | 1505 | 1504 | 1503 | 1502 | 1501 | 1500 | 1499 | 1498 | 1497 | 1496 | 1495 | 1494 | 1493 | 1492 | 1491 | 1490 | 1489 | 1488 | 1487 | 1486 | 1485 | 1484 | 1483 | 1482 | 1481 | 1480 | 1479 | 1478 | 1477 | 1476 | 1475 | 1474 | 1473 | 1472 | 1471 | 1470 | 1469 | 1468 | 1467 | 1466 | 1465 | 1464 | 1463 | 1462 | 1461 | 1460 | 1459 | 1458 | 1457 | 1456 | 1455 | 1454 | 1453 | 1452 | 1451 | 1450 | 1449 | 1448 | 1447 | 1446 | 1445 | 1444 | 1443 | 1442 | 1441 | 1440 | 1439 | 1438 | 1437 | 1436 | 1435 | 1434 | 1433 | 1432 | 1431 | 1430 | 1429 | 1428 | 1427 | 1426 | 1425 | 1424 | 1423 | 1422 | 1421 | 1420 | 1419 | 1418 | 1417 | 1416 | 1415 | 1414 | 1413 | 1412 | 1411 | 1410 | 1409 | 1408 | 1407 | 1406 | 1405 | 1404 | 1403 | 1402 | 1401 | 1400 | 1399 | 1398 | 1397 | 1396 | 1395 | 1394 | 1393 | 1392 | 1391 | 1390 | 1389 | 1388 | 1387 | 1386 | 1385 | 1384 | 1383 | 1382 | 1381 | 1380 | 1379 | 1378 | 1377 | 1376 | 1375 | 1374 | 1373 | 1372 | 1371 | 1370 | 1369 | 1368 | 1367 | 1366 | 1365 | 1364 | 1363 | 1362 | 1361 | 1360 | 1359 | 1358 | 1357 | 1356 | 1355 | 1354 | 1353 | 1352 | 1351 | 1350 | 1349 | 1348 | 1347 | 1346 | 1345 | 1344 | 1343 | 1342 | 1341 | 1340 | 1339 | 1338 | 1337 | 1336 | 1335 | 1334 | 1333 | 1332 | 1331 | 1330 | 1329 | 1328 | 1327 | 1326 | 1325 | 1324 | 1323 | 1322 | 1321 | 1320 | 1319 | 1318 | 1317 | 1316 | 1315 | 1314 | 1313 | 1312 | 1311 | 1310 | 1309 | 1308 | 1307 | 1306 | 1305 | 1304 | 1303 | 1302 | 1301 | 1300 | 1299 | 1298 | 1297 | 1296 | 1295 | 1294 | 1293 | 1292 | 1291 | 1290 | 1289 | 1288 | 1287 | 1286 | 1285 | 1284 | 1283 | 1282 | 1281 | 1280 | 1279 | 1278 | 1277 | 1276 | 1275 | 1274 | 1273 | 1272 | 1271 | 1270 | 1269 | 1268 | 1267 | 1266 | 1265 | 1264 | 1263 | 1262 | 1261 | 1260 | 1259 | 1258 | 1257 | 1256 | 1255 | 1254 | 1253 | 1252 | 1251 | 1250 | 1249 | 1248 | 1247 | 1246 | 1245 | 1244 | 1243 | 1242 | 1241 | 1240 | 1239 | 1238 | 1237 | 1236 | 1235 | 1234 | 1233 | 1232 | 1231 | 1230 | 1229 | 1228 | 1227 | 1226 | 1225 | 1224 | 1223 | 1222 | 1221 | 1220 | 1219 | 1218 | 1217 | 1216 | 1215 | 1214 | 1213 | 1212 | 1211 | 1210 | 1209 | 1208 | 1207 | 1206 | 1205 | 1204 | 1203 | 1202 | 1201 | 1200 | 1199 | 1198 | 1197 | 1196 | 1195 | 1194 | 1193 | 1192 | 1191 | 1190 | 1189 | 1188 | 1187 | 1186 | 1185 | 1184 | 1183 | 1182 | 1181 | 1180 | 1179 | 1178 | 1177 | 1176 | 1175 | 1174 | 1173 | 1172 | 1171 | 1170 | 1169 | 1168 | 1167 | 1166 | 1165 | 1164 | 1163 | 1162 | 1161 | 1160 | 1159 | 1158 | 1157 | 1156 | 1155 | 1154 | 1153 | 1152 | 1151 | 1150 | 1149 | 1148 | 1147 | 1146 | 1145 | 1144 | 1143 | 1142 | 1141 | 1140 | 1139 | 1138 | 1137 | 1136 | 1135 | 1134 | 1133 | 1132 | 1131 | 1130 | 1129 | 1128 | 1127 | 1126 | 1125 | 1124 | 1123 | 1122 | 1121 | 1120 | 1119 | 1118 | 1117 | 1116 | 1115 | 1114 | 1113 | 1112 | 1111 | 1110 | 1109 | 1108 | 1107 | 1106 | 1105 | 1104 | 1103 | 1102 | 1101 | 1100 | 1099 | 1098 | 1097 | 1096 | 1095 | 1094 | 1093 | 1092 | 1091 | 1090 | 1089 | 1088 | 1087 | 1086 | 1085 | 1084 | 1083 | 1082 | 1081 | 1080 | 1079 | 1078 | 1077 | 1076 | 1075 | 1074 | 1073 | 1072 | 1071 | 1070 | 1069 | 1068 | 1067 | 1066 | 1065 | 1064 | 1063 | 1062 | 1061 | 1060 | 1059 | 1058 | 1057 | 1056 | 1055 | 1054 | 1053 | 1052 | 1051 | 1050 | 1049 | 1048 | 1047 | 1046 | 1045 | 1044 | 1043 | 1042 | 1041 | 1040 | 1039 | 1038 | 1037 | 1036 | 1035 | 1034 | 1033 | 1032 | 1031 | 1030 | 1029 | 1028 | 1027 | 1026 | 1025 | 1024 | 1023 | 1022 | 1021 | 1020 | 1019 | 1018 | 1017 | 1016 | 1015 | 1014 | 1013 | 1012 | 1011 | 1010 | 1009 | 1008 | 1007 | 1006 | 1005 | 1004 | 1003 | 1002 | 1001 | 1000 | 999 | 998 | 997 | 996 | 995 | 994 | 993 | 992 | 991 | 990 | 989 | 988 | 987 | 986 | 985 | 984 | 983 | 982 | 981 | 980 | 979 | 978 | 977 | 976 | 975 | 974 | 973 | 972 | 971 | 970 | 969 | 968 | 967 | 966 | 965 | 964 | 963 | 962 | 961 | 960 | 959 | 958 | 957 | 956 | 955 | 954 | 953 | 952 | 951 | 950 | 949 | 948 | 947 | 946 | 945 | 944 | 943 | 942 | 941 | 940 | 939 | 938 | 937 | 936 | 935 | 934 | 933 | 932 | 931 | 930 | 929 | 928 | 927 | 926 | 925 | 924 | 923 | 922 | 921 | 920 | 919 | 918 | 917 | 916 | 915 | 914 | 913 | 912 | 911 | 910 | 909 | 908 | 907 | 906 | 905 | 904 | 903 | 902 | 901 | 900 | 899 | 898 | 897 | 896 | 895 | 894 | 893 | 892 | 891 | 890 | 889 | 888 | 887 | 886 | 885 | 884 | 883 | 882 | 881 | 880 | 879 | 878 | 877 | 876 | 875 | 874 | 873 | 872 | 871 | 870 | 869 | 868 | 867 | 866 | 865 | 864 | 863 | 862 | 861 | 860 | 859 | 858 | 857 | 856 | 855 | 854 | 853 | 852 | 851 | 850 | 849 | 848 | 847 | 846 | 845 | 844 | 843 | 842 | 841 | 840 | 839 | 838 | 837 | 836 | 835 | 834 | 833 | 832 | 831 | 830 | 829 | 828 | 827 | 826 | 825 | 824 | 823 | 822 | 821 | 820 | 819 | 818 | 817 | 816 | 815 | 814 | 813 | 812 | 811 | 810 | 809 | 808 | 807 | 806 | 805 | 804 | 803 | 802 | 801 | 800 | 799 | 798 | 797 | 796 | 795 | 794 | 793 | 792 | 791 | 790 | 789 | 788 | 787 | 786 | 785 | 784 | 783 | 782 | 781 | 780 | 779 | 778 | 777 | 776 | 775 | 774 | 773 | 772 | 771 | 770 | 769 | 768 | 767 | 766 | 765 | 764 | 763 | 762 | 761 | 760 | 759 | 758 | 757 | 756 | 755 | 754 | 753 | 752 | 751 | 750 | 749 | 748 | 747 | 746 | 745 | 744 | 743 | 742 | 741 | 740 | 739 | 738 | 737 | 736 | 735 | 734 | 733 | 732 | 731 | 730 | 729 | 728 | 727 | 726 | 725 | 724 | 723 | 722 | 721 | 720 | 719 | 718 | 717 | 716 | 715 | 714 | 713 | 712 | 711 | 710 | 709 | 708 | 707 | 706 | 705 | 704 | 703 | 702 | 701 | 700 | 699 | 698 | 697 | 696 | 695 | 694 | 693 | 692 | 691 | 690 | 689 | 688 | 687 | 686 | 685 | 684 | 683 | 682 | 681 | 680 | 679 | 678 | 677 | 676 | 675 | 674 | 673 | 672 | 671 | 670 | 669 | 668 | 667 | 666 | 665 | 664 | 663 | 662 | 661 | 660 | 659 | 658 | 657 | 656 | 655 | 654 | 653 | 652 | 651 | 650 | 649 | 648 | 647 | 646 | 645 | 644 | 643 | 642 | 641 | 640 | 639 | 638 | 637 | 636 | 635 | 634 | 633 | 632 | 631 | 630 | 629 | 628 | 627 | 626 | 625 | 624 | 623 | 622 | 621 | 620 | 619 | 618 | 617 | 616 | 615 | 614 | 613 | 612 | 611 | 610 | 609 | 608 | 607 | 606 | 605 | 604 | 603 | 602 | 601 | 600 | 599 | 598 | 597 | 596 | 595 | 594 | 593 | 592 | 591 | 590 | 589 | 588 | 587 | 586 | 585 | 584 | 583 | 582 | 581 | 580 | 579 | 578 |
|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----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Companies and Markets

INTERNATIONAL COMPANIES and FINANCE

WEST GERMAN CAR INDUSTRY

Volkswagen feels the pinch

BY KEVIN DONE IN FRANKFURT

VOLKSWAGEN, West Germany's largest motor car manufacturer, has started to feel the pinch of the recession in world car markets and has announced that it will be forced to introduce some short-term working at its Audi plants later this year.

Like its major competitors in the West German market, Ford and Opel, Audi has been hit by the particularly sharp fall in demand for large saloon cars with engines bigger than two litres.

Volkswagen said that it was preparing for up to four weeks of short-term working in September at the Audi works at Ingolstadt and Neckarsulm in southern Germany. Audi has a workforce of about 30,000 of which about half are employed in production work.

Herr Toni Schmücker, chairman of Volkswagen, told its annual meeting that the car market has become much more

difficult in the last few weeks and VW appears surprised at the speed with which the recession in car sales has developed.

Opel and Ford have been operating some plants on short-term working for several months and Opel will make more than 4,000 of its workforce redundant later this year.

Audi has been hit chiefly by the slump in West German sales of its Audi 100 model from 42,618 in the first five months of 1979 to only 26,384 in the first five months of 1980. However, sales of the Audi 80 could help fill the gap have not been fulfilled with new registrations of this model rising only slightly to 79,181 in the first five months of 1980 from 76,138 a year earlier.

Overall in the first six months of 1980 Volkswagen deliveries to dealers dropped by about 5.4 per cent to 1,239 vehicles, but the company is still hopeful of

coming close to last year's sales volume of 2.5m vehicles.

Herr Schmücker said the group should reach last year's sales total of DM 30.7bn (\$17.5bn). But profitability was being hit by rising costs so Volkswagen was unlikely to repeat last year's performance of DM 667m in after-tax profits.

The VW chief executive said that despite the recession in world car markets he expected car sales to grow at about 2.5 per cent a year in the 1980s.

He stressed that Volkswagen intended to devote its full attention to the motor industry rather than diversify into other fields. The group's financial resources would be stretched to the limit by the effort needed to develop new models and technologies, to rationalise assembly plants in order to improve productivity and to improve VW's market share.

The only exception to this

would be the further expansion of Volkswagen's activities in office technology through its subsidiary Triumph/Adler.

Triumph/Adler last year had worldwide sales of DM 1.24bn, an increase of 11.1 per cent from the previous year. About 31.2 per cent of the group's turnover came from the West German market. Of the foreign sales of DM 848m, the major share was in the U.S. Triumph/Adler's largest single market. The group still has major structural problems in the U.S. however, particularly with its Royal Business Machines subsidiary which reported large losses again in 1979.

Overall, Volkswagen is investing about DM 4bn this year, of which DM 2.7bn will be in West Germany. Investment should rise again next year to DM 4.2bn of which DM 3.1bn will be devoted to VW's operations in the Federal Republic.

Femsa also operated at a loss last year, as a result of falling sales of electrical and electronic automotive equipment to the Spanish motor industry.

Bosch investment spending is rising to DM 750m-800m this year compared with DM 676m in 1979 with the major single emphasis going on the development of fuel injection equipment.

Overall, the Bosch sales performance has been very patchy so far this year with the worst sector showing a fall of about 6 per cent and the best performer an increase of about 28 per cent.

For the whole of 1980 Bosch expects a sales increase of about 6 per cent to DM 11.5bn after a 10 per cent rise in the first half and a 2 per cent increase in prices.

Group net income near double at Toshiba

By Yoko Shibata in Tokyo

TOSHIBA Corporation, Japan's second largest integrated electric machinery maker, and its 34 consolidated subsidiaries nearly doubled group earnings for fiscal year ended March 31, helped by improvements in its three mainstays, home electric appliances, heavy electricals, and communications and electronics.

The consolidated net profits rose by 96 per cent to ¥45,320m (\$206m) over a year ago. Consolidated profits per share were ¥21.14, against ¥11.05.

Group turnover was ¥1,906bn (\$8.7bn), up 12 per cent. Sales of home electric appliances were boosted by 14 per cent to account for 36 per cent of the total.

The company's measures stressing industrial electronics such as integrated circuit (IC) business, office computers and medical electronics bore fruit.

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Exxon ready to lay out \$13-16bn on Rundle Shale

BY JAMES FORTH IN SYDNEY

EXXON CORPORATION of the U.S. is prepared to spend \$13-16bn on a project to produce synthetic crude oil from the huge shale deposits at Rundle in Queensland, Australia.

The U.S. group will pay, at least US\$500m even if the project ultimately fails to justify full scale development.

Esso Exploration and Production, wholly owned by Exxon, has signed heads of agreement with two Australian mining companies, Southern Pacific Petroleum (SPP) and Central Pacific Minerals (CPM), which hold the Rundle oil-shale deposit.

The agreement provides for a pilot plant to treat 25,000 tonnes of oil-shale a day to produce 15,000-18,000 barrels of oil a day. Esso will provide the first US\$500m, but is prepared to put up all the finance for SPP and CPM, commonly known as the Rundle twins.

The aim is to develop a project to produce 180,000-240,000 barrels of oil a day. This is equal to Australia's current level of crude oil imports which costs more than US\$2bn a year. It would equal about 2 per cent of Australia's expected

oil demand in the 1990's, when it is hoped to have the project in full production.

If Rundle goes ahead it would be easily Australia's largest resources project. It would dwarf the proposed \$450m-500m North West Shelf liquefied natural gas project off the Western Australian coast.

By comparison, the capital pumped into the Bass Strait oil fields, which currently produce about 70 per cent of the country's petroleum requirements, is still less than \$320m.

Esso Exploration and Production is actually a 50 per cent partner in the Bass Strait, and would fund the Rundle project of which Esso has been appointed operator.

Esso expects the pilot plant to begin production in 1985 and to operate for two to three years to decide on the optimum production method.

If, as expected the results of phase one indicate that further development is technically and commercially feasible expansion of the project to its optimum economic size will take place, the directors of the Rundle twins announced yesterday.

If Esso finances the project it would be entitled to the lion's share of production.

The agreement basically provides that Esso and the twins will each own the right to 75 per cent of production. If the twins can arrange finance they will be entitled to a maximum of 75 per cent of production.

The agreement also provides that Esso will make a cash payment to the Rundle companies of about US\$500m and will also provide a 50 per cent share of the cost of a new pilot plant in production in 1985.

production starts in 1985, would give the Rundle partners which have a combined capital of only \$14m, about US\$1,000m which they intend to use to explore and develop other oil-shale deposits.

The twins have at least one more prospect in Queensland, Condon and Stuart, both of which are larger than Rundle.

The reserves at Rundle are estimated at 2bn barrels of oil which would maintain production at the maximum rate for about 25 years.

One of the major difficulties confronting the project is the massive amount of money which would need to be raised.

APICorp earnings move ahead

BY JAMES BUXTON

THE ARAB Petroleum Investments Corporation (APICorp), a company owned by 10 Arab states to invest in petroleum industry projects, has reported a 52 per cent increase in net profits for 1979, from SR 62.7m to SR 95.3m (\$28.6m) in 1979. Revenue was up by 31 per cent from SR 90m in 1978 to SR 118m (\$36.4m) in 1979.

APICorp, which is based in Dammam, Saudi Arabia, was set up in 1975 and has a paid up capital of SR 1.2bn. Although its principal objective is to invest in joint ventures in the petroleum industry in the Arab world, its main activity so far has been leading or participating in Euro-market loans related to such projects.

In 1979 it managed and participated in \$708m of loans and bond issues, relating to liquefied petroleum gas (LPG) pipeline in Algeria, oilfield development in Oman and gas projects in Algeria.

In the first of its joint venture projects to get under way APICorp helped form a joint venture between its sister company Arab Petroleum Services Company and the U.S. drilling concern Santa Fe. The new company, the Arab Drilling and Workover Company, is owned 20 per cent by APICorp, 40 per cent by Santa Fe and 40 per cent by Arab Petroleum Services Company.

Joint-venture projects in the pipeline and under study

include a scheme to establish an Arab detergents industry, for which the location has yet to be decided; a project to establish an Arab catalysts industry; a lubrication oil project; and a synthetic rubber and carbon black project.

APICorp's project-related investments amounted to SR 493.2m at the end of 1979. Investments in bonds unrelated to projects and in debentures amounted to SR 17m; and current account deposits, including time deposits, amounted to SR 635.6m.

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| Shorts (Lives up to Five Years) | Price | Yield |
|---------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |

Five to Fifteen Years

| | | |
|------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |

Over Fifteen Years

| | | |
|------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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Uncated

| | | |
|------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |

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15F 15A 15C 15D 15E 15F 15G 15H 15I 15J 15K 15L 15M 15N 15O 15P 15Q 15R 15S 15T 15U 15V 15W 15X 15Y 15Z

CORPORATION LOANS

| | | |
|------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |

COMMONWEALTH AND AFRICAN LOANS

| | | |
|------------------------------|--------|-------|
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
| 25 May 25th Treasury 100/100 | 100.00 | 13.80 |
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Tel Aviv: 8th Floor, Nilton Ketzil Shimon Building.
2, 4-5, 6-7, 8-9, 10-11, 12-13, 14-15, 16-17, 18-19, 20-21, 22-23, 24-25, 26-27, 28-29, 30-31, 32-33, 34-35, 36-37, 38-39, 40-41, 42-43, 44-45, 46-47, 48-49, 50-51, 52-53, 54-55, 56-57, 58-59, 60-61, 62-63, 64-65, 66-67, 68-69, 70-71, 72-73, 74-75, 76-77, 78-79, 80-81, 82-83, 84-85, 86-87, 88-89, 90-91, 92-93, 94-95, 96-97, 98-99, 100-101, 102-103, 104-105, 106-107, 108-109, 110-111, 112-113, 114-115, 116-117, 118-119, 120-121, 122-123, 124-125, 126-127, 128-129, 130-131, 132-133, 134-135, 136-137, 138-139, 140-141, 142-143, 144-145, 146-147, 148-149, 150-151, 152-153, 154-155, 156-157, 158-159, 160-161, 162-163, 164-165, 166-167, 168-169, 170-171, 172-173, 174-175, 176-177, 178-179, 180-181, 182-183, 184-185, 186-187, 188-189, 190-191, 192-193, 194-195, 196-197, 198-199, 200-201, 202-203, 204-205, 206-207, 208-209, 210-211, 212-213, 214-215, 216-217, 218-219, 220-221, 222-223, 224-225, 226-227, 228-229, 230-231, 232-233, 234-235, 236-237, 238-239, 240-241, 242-243, 244-245, 246-247, 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1292-1293, 1294-1295, 1296-1297, 1298-1299, 1300-1301, 1302-1303, 1304-1305, 1306-1307, 1308-1309, 1310-1311, 1312-1313, 1314-1315, 1316-1317, 1318-1319, 1320-1321, 1322-1323, 1324-1325, 1326-1327, 1328-1329, 1330-1331, 1332-1333, 1334-1335, 1336-1337, 1338-1339, 1340-1341, 1342-1343, 1344-1345, 1346-1347, 1348-1349, 1350-1351, 1352-1353, 1354-1355, 1356-1357, 1358-1359, 1360-1361, 1362-1363, 1364-1365, 1366-1367, 1368-1369, 1370-1371, 1372-1373, 1374-1375, 1376-1377, 1378-1379, 1380-1381, 1382-1383, 1384-1385, 1386-1387, 1388-1389, 1390-1391, 1392-1393, 1394-1395, 1396-1397, 1398-1399, 1400-1401, 1402-1403, 1404-1405, 1406-1407, 1408-1409, 1410-1411, 1412-1413, 1414-1415, 1416-1417, 1418-1419, 1420-1421, 1422-1423, 1424-1425, 1426-1427, 1428-1429, 1430-1431, 1432-1433, 1434-1435, 1436-1437, 1438-1439, 1440-1441, 1442-1443, 1444-1445, 1446-1447, 1448-1449, 1450-1451, 1452-1453, 1454-1455, 1456-1457, 1458-1459, 1460-1461, 1462-1463, 1464-1465, 1466-1467, 1468-1469, 1470-1471, 1472-1473, 1474-1475, 1476-1477, 1478-1479, 1480-1481, 1482-1483, 1484-1485, 1486-1487, 1488-1489, 1490-1491, 1492-1493, 1494-1495, 1496-1497, 1498-1499, 1500-1501, 1502-1503, 1504-1505, 1506-1507, 1508-1509, 1510-1511, 1512-1513, 1514-1515, 1516-1517, 1518-1519, 1520-1521, 1522-1523, 1524-1525, 1526-1527, 1528-1529, 1530-1531, 1532-1533, 1534-1535, 1536-1537, 1538-1539, 1540-1541, 1542-1543, 1544-1545, 1546-1547, 1548-1549, 1550-1551, 1552-1553, 1554-1555, 1556-1557, 1558-1559, 1560-1561, 1562-1563, 1564-1565, 1566-1567, 1568-1569, 1570-1571, 1572-1573, 1574-1575, 1576-1577,

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| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
| Dr. J. W. ... | 7 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | | | | | | | | | | | | | | | | | | | | | | | | |

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